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All's Well With the Market

By JACQUES COE

Senior Partner, Jacques Coe and Co.

Market economist maintains year-end will witness higher security prices, reaffirming past cycles of business trends and human behaviorism. States there will be no occasion for caution until public reenters market in big way.

Every so often there comes a boom period in our security markets when tremendous waves of widespread public participation dominate the scene. That is the time we experience what is commonly known as a "bull market." Within the writer's memory, these outstanding phases in various degrees have been as follows:

1908-1909	Mild	1935-1936	Active
1915-1916	Active	1939	Mild
1918-1919	Buoyant	1945-1946	Buoyant
1925-1926	Active	1949	?
1928-1929	Unrestrained		

An analysis of the time elements between the tops of these various boom periods discloses two distinct cycles with approximate spacing of 10-year intervals. In one cycle we find tops in 1916, 1926, 1936 and 1946. In another cycle the top spacings, also are 10 years apart, 1919, 1929, 1939 and now 1949.

Jacques Coe

In forecasting this spring that 1949 should be an up-year, those who have been reading our previous articles on the phenomena of various cycles should be aware that we are also in an up-period for the shorter spaced 40-to-44-month cycle.

Even though stock market behavior during the first six months of 1949 seemed to question the validity of our forecast, the behavior of the market since then suggests that before the end of the year we should see still higher security prices all around, thereby again reaffirming this unique cycle of the repetition of business trends and human behaviorism.

Public's Timidity

Reluctance of the public to participate, in fact a strong tendency on the part of the rank and file to sell, rather than to buy, during the first third of a bull market is an historical fact. World affairs and labor difficulties probably seem extremely confusing to the average investor at this time—he just cannot translate them into future price trends. Discretion being the better part of valor, he decides to "get out" of the market with the idea (of course) of reentering at some future time when the situation has cleared.

Yet, strange but true, most individuals are so self-centered—so tied up with their own problems—they do not realize there might be millions of other people in a similar position, who also have been liquidating securities—also

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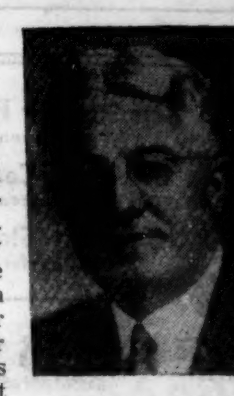
The Business Outlook and Our Philosophy of Government

By JOHN M. HANCOCK*

Partner, Lehman Brothers, Members, New York Stock Exchange

After discussing tangibles of current business situation, prominent investment banker points out long-range future is threatened by government undertaking too much. Says this hampers free enterprise system, which is basis of our form of government. Attacks planned economy as impractical and destructive of American way of life. Stresses a free market as key to our economy and warns of further government deficit spending.

In the past year or so, America has been weathering the storm of a business "recession"—or so it now appears. In the past few weeks, before the steel strikes, a rift had appeared in the clouds over the economic horizon. Since I want to look at this problem of inflation, let us take a look first at some economic tangibles in our recent past, and later look at the intangibles. They may give us the basis for a weather forecast for the months ahead. It might be helpful to determine how badly our economic craft was pitching and rolling under the glowering skies of early 1949.



John M. Hancock

Well, what were the outstanding signs of industrial decline in the past 12 months? One was a sharp contraction in business loans by commercial banks. Either the un-

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*An address by Mr. Hancock before the Duquesne Club, Pittsburgh, Pa., Oct. 14, 1949.

As We See It

Modern Politics at Its Worst

The thoughtful citizen who makes it a practice to keep informed about what is going on in this country of his can scarcely fail to have arrived at the conclusion that we are at this very moment witnessing "modern politics" at its very worst. One startling example of it is to be seen in the controversies within the allegedly "unified" defense organization of the country. About all the ordinary man is able to make of it is the fact that the organizations to which defense of this country has been entrusted are now headed by an individual with rather obvious political ambitions. We do not profess to have the most distant notion as to who among the various professional antagonists in these controversies is right—or whether any of them are—and what is much worse, we find it difficult to discover any means or basis for reaching any conclusions in the matter. The events of the past few weeks must have caused wide disgust and deep uneasiness throughout the length and breadth of the land.

But this, of course, is not the only instance of "playing politics" with vital public questions, or the only case where in the long run the rank and file must almost certainly pay through the nose for this substitution of cheap politics for real statesmanship. A per

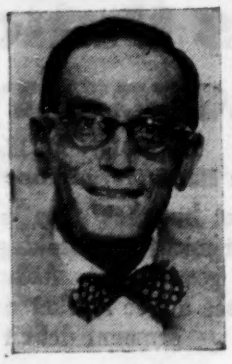
(Continued on page 34)

The Course of Welfare-Statism Abroad

By A. WILFRED MAY*

On basis of first-hand observation abroad, Mr. May reports devaluation crisis has made British man-in-the-street aware that his nation's crises are real not academic, and has accentuated general disillusionment with "spoils system." Predicts near-term easing of controls. Pictures self-contradictory trends ruling Continental countries, with conscious efforts toward promulgating free enterprise obstructed by political advantages of retaining state subsidies and controls. Hence expects secular continuation of mixed economies and unwitting socialization.

President Truman in a press conference raised a question about statism, saying that dictionary definitions are confusing, and indicating there is no such term in the sense in which it is being used for political purposes. I hope that the results of my talk will be to give you some definition, or at least some concept, of statism and welfare-statism, and some of the angles of these processes abroad, in England as well as on the continent.



A. Wilfred May

I would like to start off by saying something which I think goes to the heart of the whole question; that is, to point out to you that the British workman, who is the key voter in the world's welfare state "la-bor-a-tory," as it is pronounced in England, perusing his newspaper accounts of his country's crises while sunning himself on the beach at Brighton, has in the past—that is, up until recently—been typically reacting with a self-assured thought running something like this: "If this be a crisis, by all means let's have more of them." Getting a higher pay-check than ever before, and for less work, he has been viewing his country's budgetary difficulties and such things as balance-of-payment problems, as academic, theoretical, and assuredly none of his concern.

On the other hand, or rather, on the newly-emerging other side of the medal, I also must report my findings in a British "Pub," which indicates how the reaction of the man on the street has recently changed—the "Pub," as you know, being traditionally the best Gallup polling-ground in England. There I most surprisingly found, one night two weeks ago, severe griping at the government, and enthusiasm, not at all uncommon in England today, for a coalition under Anthony Eden.

Griping in Britain

Typical of this new widespread dissatisfaction were the so-called "political theses" of two of my buddies-of-the-moment, one a truck driver, earning seven pounds a week, and the other an ex-convict with the amount of his present earnings extremely vague. Although obviously enjoying the bar, they were remarkably coherent in castigating their Labor government.

Their criticisms were first based on the actual event of devaluation—not on technical grounds at all, although they did open up the conversation with a complaint that the pound rate was fixed too low, that it should have been \$3.50 instead of \$2.80—but much more important was their feeling that devaluation, like "Marshall Aid alms," as they called it, constituted major *external*—and I emphasize the word "external"—evidence that something really has finally gone wrong and that it is now more than just academic crisis.

Complaints About Cost

Another concrete peg on which the habitues of Pubs hang their anti-government griping is, believe it or not, the cost to the benefitee of his social security; that is, my truck-driver friend was complaining of the four-shillings-eleven, or about 63 cents in American money, weekly deduction from his pay-check. Far from being conscious of the critical barbs against free wigs and spectacles and other government generosity which are so widely circulated, or of the long list of benefits which a paternalistic government is doling out to him or is otherwise collecting for him from his employers in the way of benefits, such as sickness, unemployment benefits, family allowances and national assistance for the relief of distress, industrial injury compensation, all under the National Insurance Ministry; or those under the National Health Service, costing 259 million pounds—free hospital treatment, free doctoring, medicine, optical, ambulance and home nursing; vast housing subsidies, and free education greatly enlarged under the Ministry of Education, which cost them nothing — despite all this, the voter in the Pub — **the man in the street—is perversely concentrating his attention more and more on his own little four-shilling-eleven-pence contribution.**

Perhaps this biting-the-feeding-hand attitude is analogous to the citizen's earlier yearning for security, emotional as well as physical, of the maternalistic state, and then, after the incubation period, after he gets used to it, looking on the security-giving state not affectionately as a mother needed to take care of him, but perhaps instead scornfully as a tyrannical and "ornery" governess.

There just seems to be with the passage of time and psychological elements—I don't know whether you call them quirks—this resentment against the hand that is feeding him; the same perhaps as borrowers resenting the lenders—in line with Shakespear's famous caveat.

The State, like the individual, gets blamed either way—whether you come across or not.

It seems to me that this split-personality attitude of the public toward the spoils system and welfare statism, with its strong reservations against gratitude for its Santa Claus, is extremely significant for us and also for the long-term course of political democracy generally.

For example, in England these reservations expressed by the man on the street were extremely significant to about ten Conservatives, who will be facing re-election and worrying about their campaign arguments, to whom I related them.

In its relationship to the entire democratic process, this psychology must be interesting as bound up with the question whether, per our last election here with the surprising Truman victory, a party or candidate who out-promises or out-subsidizes his opponents can ever be defeated. Santa Claus invincibility goes right to the heart of the question of "me, too-ism" in the opposition party, as practiced by Governor Dewey last year and by most other candidates, and may go to the question of your next year's crucial campaign in Ohio by Senator Taft, who presumably is not a "me-tooer" and who has a chance of being reelected.

Certainly in this question of Santa Clausism and out-promising, the negative reaction of the Britisher and other foreigners, of the-man-on-the-street category, is very, very important.

I am not making any election prediction. I am certainly not predicting, nor do I feel that the British Labor government will be thrown out if there is an election next month, but certainly I would predict that the majority will be greatly reduced for reasons such as these.

In the continental countries, this split-personality in the individual worker seems to be duplicated in the split-personality in government direction and policy which exists in practically every country, including even Switzerland and Belgium, forcing them to pursue self-contradictory ideological directions — that is, going in two directions, right and left, at the same time.

I have led off with the discussion of Britain, because it is today the world's laboratory of socialism and, if it exists anywhere the backdoor to collectivism.

As Ernest Bevin has definitely and frankly said on more than one occasion, "The United States is only a few jumps, ten years or so, behind the British Labor Party." Witness the comings and goings to London of American labor strategists and leaders, and the trans-Atlantic similarity of the union movements and of the political pattern will not be scoffed off.

Major Disillusionments

What has been the major point of disillusionments and general reactions to welfare statism on a far larger scale than those of our men-in-the-pub?

First, the general statement can certainly be made that there has been broad disillusionment on the part of the entire great middle class, throughout not only Eng-

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*Transcript of address by Mr. May before Annual Convention of Ohio Savings and Loan League, Columbus, Oct. 12, 1949—from material gathered in Europe.

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*See article on page 2.

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The Penchant for Power

Proposed Frear Bill outlined. Product of SEC propaganda. Unjustly penalizes management. Imperils over-the-counter market. Impairs market liquidity and is against the public interest. Commission's opinion in American Power & Light case as evidence of its thrusts against the over-the-counter market. Administrative juggernaut must be stopped.

We believe there exists an axiom in SEC thinking that it must constantly strive, regardless of consequences to the public and to the securities field, for a widening and extension of its powers.

Evidencing again this "pull of power" is the pending Frear Bill to amend the Securities Exchange Act of 1934. Under this proposed amendment, this by-product of SEC propaganda, corporations having $3,000,000 in assets, the securities of which are held by 300 persons or more, and are traded over-the-counter, will be compelled to file a complete registration statement with respect to their securities, and supplementary data, including periodic reports, etc., and the proxy rules applicable to listed securities will thereafter apply to such corporations.

For years the Commission has recommended these changes under the beguiling nomenclature of "equalization." Let us examine this ruse to see what is contemplated.

For decades, vis-a-vis, two markets have grown and graced our economy, the auction market and the over-the-counter market. These have been characterized by many trade customs and usages and under them our country has flourished and we were served well.

The Securities Acts never intended to place in the SEC any general jurisdiction covering the over-the-counter market. To gain some control in this sphere the Commission fathered the Maloney Act enabling it in considerable measure to do through the National Association of Securities Dealers what it was powerless to do directly.

One would imagine that after this "grab" the SEC would be content. But no, this invasion of the over-the-counter field was only a prelude to the planned whittling away of the over-the-counter market.

We do not take a position in favor of any one market as against the other. Both have a distinct place in our economy.

The Frear Bill would also make applicable to the directors, officers and principal stockholders of the instant corporations, the provisions of Section 16 of the Securities Exchange Act of 1934. This means reports of beneficial holdings in equity securities exceeding 10% of any class to the SEC and a six months' holding period before accruing profits from securities sales may be retained by the individual rather than turned over to the corporation. As to officers and directors it applies regardless of the size of their holdings.

Competent management is a truly vital factor in the field of business. Improvement in corporate stature is dependent thereon. Ownership by management of the equity securities constitutes a ready incentive to directive proficiency. The enhancement of that equity is one of the rewards resulting from excellent performance. Under such circumstances it is difficult to realize why the Commission through the Frear Bill seeks to penalize such management as to over-the-counter securities by forbidding the owner of more than 10% from treating his holdings in the same way as any other member of the public may handle his. The extension of this penalty from listed to over-the-counter securities is unwarranted because existing legislation has shown it to be unsound and undesirable. Certainly, in a market which already is exceedingly thin these additional restrictions will not serve to promote liquidity.

To give additional powers to the SEC seems to us ridiculous. In increasing instances prices do not reflect the real values and we attribute much of this to the constantly enlarged powers of the Commission and the innumerable restrictions it has been placing on the securities industry.

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The Technique of the Sales Interview

By KELSO SUTTON*
Consultant in Salesmanship

Mr. Sutton, in cautioning against overloading customer in an interview by giving him too much at one time, describes various methods of conveying selling points to listener. Advises salesmen give customer opportunity to ask questions and interpose objections. Stresses importance of personal side of salesman and favorable material setting in interviews. Discusses problems involved in closing interview and warns against wandering away in conversation from sales talk. Urges salesmen cultivate complacent attitude as psychic factor and also to analyze mental attitudes of their customers.

We are discussing the analysis of the interview. When we left off last time we were talking about certain features of the approach, when you first walk through the door and come in contact with your buyer. You remember we discussed preparing yourself for a good interview before you get into the office, and we were talking about certain human factors, as far as the sales interview is concerned.

Kelso Sutton

We said that in the long run the buyer is the one who rules an interview, because he can stop it at any time he wishes to. One way to keep an interview from being stopped before you have come to the point where you are going to try to get an order, is not to try to overload your listener by giving him too much at one time.

If you overload his mental capacity, you are liable to confuse him and he will back away from any further discussion of the subject. When you are selling you advance certain reasons and certain selling points why the buyer should buy what you have to sell, and you have to time the pyramiding of those points.

You must remember that selling is not simply reciting, that it is putting over certain particular reasons why it would be a good idea for that customer to invest in some securities that you are offering him.

You will do well to pay attention to the timing of the advancement of these various reasons. After you put forth one selling point, don't go to the next one until you are pretty sure that he has digested the first one. You have got to get acceptance and agreement on every selling point that you present.

Do not just talk your selling points. Put them forth, one at a time, and convince him on every point. Thaht is the way you build toward an order. That is the way to build up acceptance of yourself.

Remember that we said in the beginning that selling is putting forth an idea of our own that the buyer accepts and agrees upon, the basic idea being, of course, that it would be well for him to buy his securities through you.

But as you go along in any one sales solicitation, you put forth various ideas to build up to the final one of the purchase. Every immediate idea and suggestion that you put forward should be handled in such a convincing manner that that particular point is really a selling point.

What Constitutes a Selling Point?

Just what is it that is called a selling point? It is that point which has added to the acceptance of what you have to sell, so if you just rush on and give a fast canvass you don't get that acceptance from one point to the other which builds up to the purchase.

This is a good time to consider for a moment the role of your prospect. A salesman should realize that as a salesman he has a certain role to play during a sale solicitation, but that he is only one of the parties involved, that there is a buyer there, too, and that the buyer also has a role to play, or a certain action that he has to take.

From the point of view, as the seller, you must appreciate what his role is and give him the opportunity to play it. Let us discuss, very briefly, what your prospect's role is, what these certain things are that your buyer is doing during a solicitation.

The first is that he listens to your proposition. That seems very simple, and you all know it. But is he really listening? There is a difference between listening and absorbing what you are saying, and just sitting there and waiting for the moment to turn you down.

You must make sure that he is really listening to what you are saying, that he is accepting the points that you are discussing with him. By arousing his attention and stirring up his interest, make sure that he listens to you.

The next thing that your buyer does is to evaluate your proposition. He is doing that all the time that you are talking to him. He is relating your proposals to many, many other things that interest him in his life, and in the way he wants to spend money.

You have to run your end of the discussion in such a way that he will be able to have the time to evaluate what you are saying as you go along. If you rush him too much he gets behind you and you lose him, because he hasn't been able to evaluate things, you have gone too rapidly.

There again, we go back to that principle that this is an old story to you but it may be brand new to your customer, that you think in terms of finance and securities for eight hours a day but he may just think for half an hour a week about them. You are way ahead of him in your field, and when you discuss your subject with him you must take it at a pace that will allow him to evaluate what you say, as you go along.

The third thing that the prospect does, he judges you and your organization. We have been talking about that. We have been talking of the value of your approach in his eyes, that he is either going to like you or else not want to do business with you. It usually goes one way or the other.

You must appreciate that all the time this solicitation is going on that you are being judged for yourself, and for you, as representing the investment house for which you work.

The Buyer Asks Questions

The next thing that a buyer does is to ask questions. A one-sided solicitation is no good. You must have participation on the part of the buyer. One way to get it is by having him ask questions. He asks questions for various reasons, one being when he fails to understand a point.

Let us say that you go in and talk to Mr. Jones, and you are going along at your regular conversational pace, and you are discussing some points about securities, or mutual funds, or something like that. If you don't give him time to ask you a question about a point, he may not get it, and that point is lost, as far as your buyer is concerned.

So pace your delivery so that if he gets stuck he can come in and ask you a question. Also, set this social atmosphere of your interview so that he will feel free to come in and take part in the conversation and free to stop you and ask you questions.

He will ask questions for further information. Maybe there are some points that he is particularly interested in that you have not covered. You don't know that. You don't know what his specific personal interests are. In order to find out what they are, you've got to give him a chance to ask for that kind of information. When you let him do that, oftentimes it tells you which way to direct your solicitation from that point on.

Another reason he asks questions is to help him decide what he is going to do. He doesn't want to decide just by thinking it over. himself, he wants to be able to ask you some questions which will help him to decide.

So we can appreciate that the man you are talking to has certain things to do and if he does them that will be good for the

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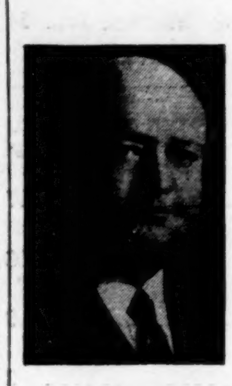
*Stenographic report of lecture given by Mr. Sutton, fifth in a series on Investment Salesmanship sponsored by the Investment Association of New York, New York City, Oct. 13, 1949.

We Must Broaden Investment Base of American Industry

By ROBERT P. BOYLAN*
Chairman, Board of Governors, New York Stock Exchange

Asserting unless investor base of American industry is broadened, we are likely in time to see end of capitalistic system, Mr. Boylan points to need of $8 billion annually for expanding American business. Says we must find additional sources of equity capital without government funds, and reveals work of New York Stock Exchange in encouraging shareholding plans for employees and other activities for expanding corporate ownership.

During the first half of the present century, we have seen the control of money, credit and banking shift from New York to Washington and Federal taxes become a predominant influence on investment habits. We have seen a corporate bond market, once participated in by millions of individual investors, become one in which the principal interest is on the part of institutional investors. Money rates are too low to attract the small investor to corporate bonds when he can buy a government bond which yields as much or more.



Robert P. Boylan

All of which leads me to a brief comment on the reasons why the New York Stock Exchange is placing so much emphasis at this time upon its campaign to broaden the investors base of American industry. This campaign to interest more people having surplus funds in the benefits and satisfactions to be had by investing in the income-producing shares of American industry. It has not been undertaken just to provide new customers for our member firms. That is a good reason, but the more important consideration is that unless this base of investors is broadened we are likely in time to see the end of the capitalistic system.

The present Administration and the preceding one in Washington have convinced great numbers of American people that a "more abundant life" is possible for all; that an annual national income of $300,000,000,000 is within easy reach; that we can expand the American economy until, by 1960, business will be serving a domestic market in which consumers will spend at least $160,000,000,000, or 75% more than they spent in the big boom year of 1929.

This is fine, and I hope it all come true; but here is the rub, and it is a big one. In order to serve such a market, business would have to expand at the rate of at least $8,000,000,000 a year for the next ten years; and if it cannot get money from the private investor it will have to get it from the government, which, of course, would mean that eventually private capital would be eliminated from our enterprises.

Even with bouyant markets for stocks and a high level of confidence as to future profits, it is going to be increasingly difficult to finance the necessary expansion of American business without government assistance unless we find additional millions of sources of equity capital.

Work of New York Stock Exchange

The New York Stock Exchange, consequently, reached the conclusion some time ago that, to assure a continuance of the American system, the profits from it would have to be shared through stock ownership with a much larger portion of our population. In addition to its advertising program with which you are all familiar, the Exchange seeks to encourage corporations to develop shareholding plans for employees. Many companies are heartily in favor of employee ownership; some of them are encouraging it by adding company funds to the funds invested by employees; others by giving company stock as bonus; in other ways companies are expanding their lists of stockholders.

The best interests of the financial community and of the industrial community can be served by maintaining the importance of the individual stockholder and by affording him a market where he may beneficially invest on both a long-term and a short-term basis. The market for new stock financing is influenced largely by the market for stocks already outstanding. A good market for issued stocks is essential to the obtaining of an adequate supply of new equity capital. Greater skill will be needed than ever before in the financial community to select the investments which meet the needs of the new investors and great attention will be required on the part of industry to make ownership both attractive and sound.

It is in situations such as these that the Association of Stock Exchange Firms can serve an important function. For example: realizing the need of the investor for sufficient facts to appraise values with reasonable accuracy, many firms have enlarged and strengthened their research departments and brought these facilities to the attention of a larger portion of the general public. There is much in their experience that can be drawn upon for the benefit of all member firms that do business with the public. The knowledge, skills and techniques thus acquired might be utilized to solve problems of many member firms through a sort of clearing house of information provided by the Association.

It is the nature of the investment business that when one firm increases its volume of transactions, it contributes to the volume of other firms.

I believe the New York Stock Exchange is fulfilling competently its primary function of providing a meeting place for the buyers and sellers of securities. The Exchange has calmly met war, depression and political and economic change and has successfully withstood stresses and strains of great proportions. By constantly improving its facilities and by accepting its public responsibilities, the nation's market place has done much to merit the respect of the country and it will enter the second half of the century in good health, prepared to serve a nation of investors.

*Remarks by Mr. Boylan at dinner given by the Association of Stock Exchange Firms, Atlantic City, N. J., Oct. 12, 1949.

With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Vernon C. Badham has joined the staff of E. F. Hutton & Company, 623 South Spring Street. He was previously with Dempsey-Tegeler & Co.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Despite the fact that industry has been confronted for the past four weeks with a bituminous coal strike, as well as a nation-wide steel strike called on Sept. 30, last, over pensions and other social security benefits, total industrial production the past week managed to remain steady and at a level only moderately under that of a year ago.

The main reason to date for the ability of industry to continue production without undue interruption was the fact that no serious material shortages were in evidence in those industries dependent on steel, although some slight production cutbacks were reported.

The situation at present, however, has taken a turn for the worse with a spokesman for the automobile industry giving a warning that if steel shipments are not resumed by next Monday, several hundred thousand auto workers will be idle.

Many car and truck manufacturers because of dwindling steel supplies are faced with possible early shutdowns of three weeks or more.

On Monday of this week the national strike picture was further confused by the walkout of CIO steelworkers from the Aluminum Co. of America plants. The deadline was set at midnight on Sunday, Oct. 16, and the company failing to reach an accord with the union over company-paid welfare benefits totaling 10 cents per hour, 20,000 employees at nine of the company's plants failed to report for work. Present benefits enjoyed by Alcoa's employees consist of employer-financed social insurance and pension programs costing approximately seven cents an hour.

The harmful effects of these strikes are fast becoming more obvious each day the strike continues and Secretary of Commerce, Charles Sawyer, at the close of last week, found it necessary to warn labor that the summer's "definite upward trend" in business and employment has been halted by "strikes and threats of strikes."

Calling attention to the losses to all stemming from the present steel strike, Mr. Sawyer stated that should the walkout continue until Dec. 1, unemployment will result for about five million persons. Approximately one million workers already are without work because of the steel and coal strikes, with production in the former industry reduced to less than 10% of capacity.

Mr. Sawyer added that at the beginning of the strike on Oct. 1, average inventories in the hands of steel consuming industries were estimated to be sufficient to last until Nov. 15. If the strike continues until that time, he asserted, shortly after that date about 80% of the production of the steel-consuming industries will be lost, "with serious damage to the nation's economy."

As to small business, Mr. Sawyer had this to say:

"Current reports coming to the department suggest that many small firms will be forced to close their plants if steel inventory replacements do not become available before Nov. 15, and far too many of these firms will not have the capital to reopen."

The Secretary further stated: "I am particularly concerned for the more than 200,000 small manufacturers and the additional thousands of service establishments which depend upon frequent steel inventory replacement for their existence."

On Tuesday of this week the Federal Mediation Service intimated that President Truman will intervene if the coal and steel strikes are not settled this week.

With respect to the 39-day Missouri Pacific Railroad strike, negotiators working towards a settlement announced on Monday last, that trains should be in operation over the railroad's 11-state system next Saturday.

* * *

STEEL PRODUCTION FOR CURRENT WEEK, SCHEDULED AT 9.3% OF CAPACITY, UNCHANGED FROM WEEK AGO

By the end of this week the steel strike will have cost the nation 4,300,000 tons of steel. If the strike should last a month it will mean a severe shortage of steel for from four to five months. A longer tieup will almost certainly hit purchasing power so badly that a sharp business setback will result, states "The Iron Age," national metalworking weekly, in its current review of the steel trade.

Not counting losses to coal miners and employees of fabricating companies, lost wages at the end of this, the third week of the steel strike, will add up to about $100,000,000 in basic steel alone, the magazine adds.

The zero hour is now at hand for many steel users. Some have already shut down. Others will be idled this week. Fabricators who turned to aluminum when steel was struck need not now be too concerned over supplies because of the strike called this week at some Aluminum Co. of America plants. Alcoa's ingot capacity has

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Chairman Hanrahan Resigns From SEC

Edward T. McCormick selected to fill vacancy and Donald C. Cook, a former SEC member, renominated to succeed Robert C. McConnaughey, who resigned last summer.

Edmond M. Hanrahan announced on Oct. 12 his resignation as Chairman and member of the Securities and Exchange Commission and is expected to resume law practice in New York City. Mr. Hanrahan was appointed to the SEC in June, 1946, and in spring of 1948 was elected its Chairman. President Truman immediately nominated Edward T. McCormick, the Assistant Director of the SEC's Division of Corporation Finance, to fill the term of Mr. Hanrahan, which expires in 1952. He also nominated Donald C. Cook of Michigan, a former SEC member, to fill the vacancy created by the resignation last summer of Commissioner Robert C. McConnaughey. Both nominees are Democrats. Mr. Cook's term will not expire until 1954.

E. M. Hanrahan

In his letter of resignation, Mr. Hanrahan stated: "I assure you, Mr. President, that this step is taken with great reluctance and only because I can no longer, with justice to my family and myself, devote my time to public service. Substantial progress has been made during your Administration toward attaining the objectives for which the Commission was created. The successful functioning of this Commission has been due in no small part to the atmosphere of confidence in which I have worked."

In replying to his letter of resignation, the President told Mr. Hanrahan that he was "familiar with the considerations which prompt your desire to return to private business. In justice to you, therefore, I feel that I have no recourse but to accept." In addition, Mr. Truman expressed his "gratitude and appreciation for faithful public service." The Hanrahan resignation becomes effective on Nov. 3.

Edward T. McCormick, who hails from Arizona, has been continuously with the Commission since 1934 and took a major role in drafting the proposed amendments to the Securities Act designed to legalize solicitation of securities transactions in advance of the effective date of registration statements.

The members of the SEC elect their own chairman, and have not yet chosen the successor to Mr. Hanrahan.

With Hess & McFaul

PORTLAND, ORE.—George A. Bruce is now with Hess & McFaul, American Bank Building.

Hugoton Production Company

Brief History of Company and Operations

The company was formed in September, 1948, by Panhandle Eastern Pipe Line Co. Shortly after formation Hugoton issued 810,000 shares ($1 par) common stock to Panhandle in exchange for $675,000 cash and gas and oil leases covering approximately 97,000 acres in Grant and Stevens Counties, Kansas. This acreage is located near the center of the Hugoton natural gas field in the southwestern part of the state.

In October, 1948, all of Hugoton's common stock was declared as a dividend to holders of Panhandle common stock at rate of one share of Hugoton for each two shares of Panhandle. This distribution was originally scheduled for Nov. 17, 1948, but was postponed as the result of a temporary restraining order obtained by the Federal Power Commission. The litigation was finally decided by the U. S. Supreme Court in favor of Panhandle and the distribution of Hugoton stock was made to Panhandle stockholders on June 27, 1949.

Panhandle and Hugoton entered into a contract permitting the latter to sell its natural gas production to outside interests until Jan. 1, 1965, after which Panhandle has the right to purchase Hugoton's entire output at such price as Hugoton could then obtain from others.

Hugoton subsequently contracted with Kansas Power & Light Co. for the sale of gas from Nov. 1, 1949, to Nov. 1, 1964, Hugoton reserving the right to extract hydro-carbons provided that the heating value of the gas is not reduced below 950 Btu. per cubic foot. The amount of gas to be delivered under this contract starts at 15,000,000 Mcf. in 1950 and increases to 24,000,000 Mcf. in each of the last two years and the total quantity to be delivered over the 15-year period approximates 300,000,000 Mcf. All of such gas will be produced and sold by Hugoton within the State of Kansas.

Hugoton is now engaged in a construction program which for 1949 is estimated to cost $3,200,000 and which includes the drilling of 50 wells, the laying of 80 miles of gathering lines and the building of a dehydration plant. Deliveries of gas to Kansas Power & Light Co., are expected to begin about Nov. 1, 1949.

In order to fulfill its contract with Kansas Power & Light Co., Hugoton plans to drill 10 more wells in 1950 and approximately 23 additional wells during the period 1951 to 1958. Hugoton also expects to produce and sell gas in excess of the quantities required under the Kansas Power & Light contract and it may also engage in other phases of the oil and gas business.

Hugoton's present capitalization consists of 810,000 shares ($1 par) common stock and $2,500,000 2¾% promissory notes. The notes were incurred on Sept. 7, 1949, under a bank credit agreement permitting total borrowings of $4,000,000 until Sept. 1, 1950. These notes are due at the rate of $500,000 on Sept. 1, 1951, and $250,000 on each March 1 and Sept. 1 thereafter to Sept. 1, 1955.

Hugoton's gas acreage was acquired from Panhandle at the latter's cost of approximately $135,000, but this apparently represents only a small fraction of its present value. In a report issued last year Panhandle stated its belief that gas reserves in the large southwestern fields were worth about 2½c per Mcf. and the reserves which were transferred to Hugoton have been estimated by the latter company at approximately 750,000,000 Mcf. On this basis the Hugoton properties have a value of around $18,750,000 which is equivalent to about $23 per share on 810,000 shares of Hugoton common stock. These figures do not take into account any additional reserves which may be discovered on the Hugoton leases.

Hugoton has not published any estimates of earnings but it is expected that its revenues from the sale of gas under the Kansas Power & Light contract will aggregate about $2,000,000 in 1950 and increasing amounts during succeeding years and that further revenues will be obtained from the sale of additional gas and other products.

The credit agreement covering the company's 2¾% promissory notes requires the first $500,000 of net income to be retained in surplus and then permits 50% of net income to be paid in dividends until surplus equals 50% of the notes, after which 100% of net income can be disbursed. Inasmuch as Hugoton was formed to facilitate the prompt development of its properties, it is the stated opinion of well-informed circles that after the necessary consideration has been given to the above restriction, the company's dividend policy will probably be a liberal one.

T. B. Johnson With Hemphill, Noyes Firm

Hemphill, Noyes, Graham, Parsons & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce that Tristam B. Johnson is now associated with them. Mr. Johnson, who will specialize in municipal bonds through the firm's New York and Trenton offices, was formerly with the municipal bond department of Bankers Trust Company.

Debt Management and Government Bond Outlook

By ROBERT H. CRAFT*

Vice-President and Treasurer, Guaranty Trust Company, New York

Mr. Craft, asserting monetary authorities now ha'e power to fix interest rates and have complete control of government bond price level, predicts interest rates will be kept low because of current need for deficit financing and large amount of short-term government obligations. Reviews present government debt-management policy and denounces it as following the "compensatory economy theory," through excessive government spending. Sees threat of further inflation and urges support of the economy bloc at Washington by arousing public opinion to inflationary dangers.

The reason for my choice of the subject "Debt Management and the Outlook for Government Bonds" is, I think, obvious to all of you, and that is, that the outlook for government bonds is dependent almost entirely upon debt management and Federal Reserve policies.*

Robert H. Craft

Without an understanding of these and the various factors and philosophies governing debt-management decisions, it would be difficult to come to any sound conclusions about the outlook for the bond market.

Beyond the fact that such a large percentage of your total assets is committed to government bonds—the latest figures I have indicate that something over 50% of your assets are so invested—debt management and Federal Reserve policies should have at least two important aspects of interest to you. In the first place, as I have already mentioned, with their almost complete influence on the level of government bond prices, they in turn are the controlling factors over the rates at which you employ the other funds at your disposal. Of more importance to you as savings bankers is the profound effect that debt management exercises on the economy overall and more specifically, on the purchasing power of those dollars that your depositors have entrusted to your care. Thus, today, I am dividing my subject into two general parts; one, the influence of debt management and particularly Federal Reserve policies on interest rates in an effort to provide you with some general guides for gauging the price trend outlook for government bonds and second, the effect that debt management exercises on the economy overall.

Monetary Authorities Control Interest Rates

In pursuing the first point I would like to state at the outset that the powers now vested in the hands of the debt managers, in my opinion, leave no doubt about the ability of the monetary authorities to control effectively within rather narrow limits the prices of government bonds at almost any level that they see fit. It might be well to review briefly the mechanics of the handling of the debt and to explain the reason for my statement of confidence in the ability of the monetary authorities to control the level of bond prices under our rather complex monetary system.

As you know, the Federal Reserve Banks by law are required to maintain a ratio of 25% in gold certificates to the amount of notes in circulation, that is, currency outstanding, and 25% in gold certificates against deposit liabilities of the Federal Reserve Banks, most of which represent member bank reserve accounts. Member banks in turn by law are required to maintain at the Federal Reserve Bank a certain percentage of their deposit liabilities as a reserve against these deposits. The latter percentage amount varies depending upon the location of the member banks which are divided into three categories, Central Reserve Cities, Reserve Cities and so-called Country Banks. The Board of Governors of the Federal Reserve System is permitted to raise or lower these member bank requirements within certain limitations set by law varying from 26% to 13% in the case of Central Reserve City Banks, from 20% to 10% for Reserve City Banks and from 14% to 7% for Country Banks against demand deposits and from 6% to 3% for all member banks against savings deposits. At present, requirements against demand deposits are 22% for Central Reserve City Banks, 18% for Reserve City Banks, 12% for Country Banks and 5% for all banks against savings deposits.

Medium for Expanding Bank Credit

At the present time, overall requirements for all member banks against all their demand deposit liabilities are estimated to average about 17% and if these requirements were reduced to the minimum permitted by law, the requirement would be about 10%. This system provides for a great multiplication of reserves through the medium of expansion of reserve and member bank credit. Without going further into the mechanics of the manner in which it operates, it probably will be sufficient to say that based on the present deposit liability and note circulation of the Federal Reserve Banks and the present reserve requirements of the member banks, deposits in the member banking system could be expanded by at least $290 billion over and above the present deposit level. Or, in other words, this means that member banks by full use of Federal Reserve credit could purchase approximately that additional amount of government bonds over and above their present holdings. If member bank reserve requirements were to be reduced to the minimum permitted by law, it would enable the member banks to increase their holdings of government securities by $580 billion above the present level. As you readily can see, this is an amount much more than sufficient to absorb all of the outstanding debt.

As you know, this was the method employed on a modest scale to finance the war. The Federal Reserve poured reserve funds into the market by increasing their holdings of government securities from about $2 billion at the beginning of 1942 to $24 billion at the end of 1945. On the reserve base thus created, commercial and savings banks were enabled in the same period to absorb a net amount of nearly $76 billion of government bonds without any general rise in rates. Of course, depletion of our gold stock, a large increase in currency outstanding, a substantial increase in the extension of other credit by the banking system would tend to diminish this total potential expansion figure, but the point I would like to stress is that the expansion possibilities are so great that impairment is not a probability and I have no doubt that if the present powers were insufficient, additional measures would be adopted to provide the necessary latitude. This — the ability to create such a tremendous expansion in deposits and assets in the banking system or to substitute other measures if necessary — is fundamentally the reason for my statement that I have no doubt about the ability of the monetary authorities to control effectively the price level of government bonds. If we can accept this premise, it would seem to resolve itself into a matter of what level of interest rates the monetary managers deem to be in the best interests of the economy at any given time.

Why Interest Rate Was Kept Low

The present historically low interest rate level of government bonds obviously stems from the war, the financing of which was undertaken at as low a cost as possible consistent with a minimum of inflationary effect on prices. Various temporary expedients were adopted to facilitate the borrowing of war expenditures such as a low rediscount rate, establishment of a low preferential borrowing rate to the banking system against short-term governments and later on, a put and take privilege on Treasury bills at a guaranteed ⅜ of 1% rate. But, as was mentioned previously, the most important factor was the heavy purchases of government securities by the Federal Reserve Bank for System account. The public debt rose from about $50 billion, just prewar, to the peak at the end of 1945 of $279 billion. That borrowing on this scale could be carried out with the minimum of disturbance to the financial machinery that took place was a noteworthy accomplishment and, of course, to the extent that bonds were placed outside the banking system, the inflationary effects of the borrowing were minimized. Sales of non-risk, non-marketable, redeemable bonds enabled the Treasury to place a good portion of the debt in this manner.

Immediately following the war, there was no relaxation of controls, but as the economy continued to ignore the predictions and forebodings of government economists and continued upward, restrictive measures were adopted looking toward curtailing extension of bank credit. With the sharp rise in prices following elimination of OPA controls and as the great pent-up demand for goods continued to manifest itself, the restrictive credit measures first took the form of the elimination of the preferential discount rate and the unpegging of the ⅜ of 1% Treasury bill rate, permitting short-term rates to rise. The more drastic action of reducing the support level for government bonds, as we all remember, came as a Christmas present in 1947 as sales to the Federal assumed large proportions.

As these measures had no effect in curtailing the spiralling economy, they were followed in 1948 by increases in the rediscount rate in January and in reserve requirements in August. With a continued rise in business and as bank loans continued to expand, the rediscount rate was again increased to the present level and

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*An address by Mr. Craft before the Connecticut Savings Banks Association, Whitefield, N. H., Oct. 17, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

Against one of the most intense pressures that Congress has ever been up against, the Senate has firmly rejected the bill to amend the Displaced Persons Act to permit an additional 135,000 of these people to come into the country. Under the circumstances it would seem that the public is entitled to know more about the nature of this pressure.

Carlisle Bargeron

For more than a year those Senators who have been opposed to the measure have been unmercifully smeared in certain portions of the press and on the radio and from many public forums. They have been accused of discriminating against Catholics and Jews. Mr. Truman has frequently made this accusation and I have yet to see a single editorial favoring the measure that did not say the opponents were anti-Catholic and anti-Semitic.

Yet from the outset Catholic authorities have insisted the present act was not discriminatory to members of their faith. And the further fact is that Senator McCarran who as chairman of the Senate Judiciary Committee, has borne the brunt of the smear campaign, is, himself, a Catholic. The Senator has been charged with bottling the bill up in his committee and a most unusual procedure was resorted to to get the bill out. In his absence in Europe, the committee under pressure from Truman voted to let the measure come to the Senate floor without recommendation. It was most unusual to send a measure to the floor like this and it was a violation of the traditional Senatorial courtesy. That McCarran had not been acting arbitrarily or dictatorially against the wishes of the people, as was repeatedly charged, is evidenced by the decisive vote, 36 to 30, by which the measure was rejected.

Now, throughout this intense agitation for the bill and of smear and abuse of those who were opposed to it, I have not seen one single editorial defending them, nor heard any radio commentator or any other public speaker. They, themselves, have said very little in their own behalf and what little they did say, has been given little or no publicity. The committee hearings are replete with arguments that liberalization of our DP immigration would be unwise and they were not made by bigoted groups, by the Ku Klux Klan or based on any racial reasoning. Certainly worth considering have been the go slow admonitions of our consular officials abroad who have to deal with these people. Little publicity has been given to these arguments. The attitude of those not whooping it for the bill, not having any axe to grind in its passage, has been to keep hands off. They have felt it involved something dirty which they could best leave alone. Yet the matter is of tremendous importance to the country. The number of additional DP's whom the bill would have permitted to come in would constitute a good sized city.

Far be it from me to pass upon the merits of the bill. It has been too beclouded in propaganda. A lobby has spent some $600,000 in its behalf.

I have repeatedly read, from editors agitating for it and smearing its opponents, that only a small percentage of Jews would be affected. Yet the whole campaign for the bill revolved around the charge that the present act is discriminatory to those of that and the Catholic faith.

What concerns me is that those Senators who have considered the proposed liberalization not in the best interests of the country have had to suffer the abuse and smear in silence or without defense. As a whole they constitute by far a better element of citizens and public servants than those Senators and other interests who have been vociferously for the bill.

That they are a higher type is shown by the fact that they didn't fight back in the same manner as did the proponents, that is, by an appeal to religious and racial emotions. This is what those behind the bill did. In a knock down and drag out fight on religious and racial grounds there are more votes on the other side.

This so-called Displaced Persons bill was an issue in several States in the last Presidential campaign. It figured largely in the West Virginia campaign in which Senator Revercombe was defeated for reelection. Revercombe was at that time chairman of the Senate Judiciary Committee and he was accused of bottling up the bill in committee.

Governor Dewey, seeking votes in New York State and to a lesser extent in other States on religious and racial grounds, pointedly snubbed the Senator by way of showing his displeasure of the Senator's treatment of this bill, particularly after the Governor had appealed to him. Revercombe went through his campaign without referring to Dewey's action and without seeking to capitalize upon his opposition to the bill. With West Virginia's population he could very easily have exploited his opposition in the same way Dewey was seeking to cash in on his attitude. Revercombe was too much of a gentleman to do this.

Far more emotions can be aroused against the bill than can be aroused in its behalf. It is a tribute to the opponents that they have not sought to do this. But the question seriously arises in this agitation as well as in similar agitations of recent years, as to just who are the bigots against whom we hear so much inveighing these days.

Kuhn, Loeb and Associates Offer Duquesne Lt. Bonds

An underwriting group composed of Kuhn, Loeb & Co., Union Securities Corp. and A. C. Allyn & Co., Inc. are offering today (Oct. 20) a new issue of $15,000,000 Duquesne Light Co. first mortgage 2⅝% bonds. Priced at 100.52, the bonds will yield 2.60% to maturity. The issue was awarded to the group at a competitive sale Oct. 18.

Proceeds from the sale of the bonds will be used by the company to the extent of $12,000,000 for the prepayment of outstanding bank loans and the balance will be available for general corporate purposes, including payment of a portion of the cost of the company's construction program.

Devaluation and U. S. Exports

By ALEXANDER N. GENTES*
Vice-President, Guaranty Trust Company of New York

New York banker reviews developments leading up to currency devaluation and discusses probable effects thereof on U. S. foreign trade. Says, since our economy is now geared to large export volume, temporary continuation of export subsidies through ECA and other agencies is advisable, but warns nation cannot keep present high level of exports, so that a balancing with imports is required through modification of U. S. trade policies.

After many months of speculation in the United States and other parts of the world as to whether and when England would devalue, and after a number of rather vehement denials on the part of Sir Stafford Cripps, Chancellor of the Exchequer, an announcement was made by him on Sept. 18 of the devaluation of the British pound from $4.03 to $2.80—a decrease in value of 30.5%. While the general feeling in most quarters was that England would be forced at some time in the future to devalue, in order to place her currency on a more realistic basis and to improve her balance of trade with hard currency countries, the timing and the extent of the devaluation came somewhat as a shock to many of those engaged in international operations. The devaluation of sterling carried with it all currencies in the sterling area, except Pakistan, and the procession soon was joined by other countries, such as Belgium, Luxembourg, France, Netherlands, the Scandinavian countries, West Germany, Greece, Portugal, Canada, Egypt and Thailand. Argentina, in accordance with general expectation, was the first of the Latin American countries to announce official devaluation on Oct. 3, last, and, concurrently, the government froze prices and temporarily suspended all imports. Changes in rates also have been announced in Chile and Uruguay and Spain. It is believed that the Argentine devaluation is but a forerunner of devaluation in a number of other raw material producing countries in the Latin American area which now have cause for increased fear of sales at devalued prices from competitors in the sterling area.

A. N. Gentes

For the sake of sequence, mention should be made here of the main reasons for the devaluation of the pound, which led to the succession of devaluations by other countries. First: Britain's gold and dollar exchange reserves were being drained away at an accelerated pace because of her growing excess of imports over exports to hard currency countries and it was recognized that drastic measures were immediately necessary to enable the country to maintain even minimum reserve requirements, which are now believed to be well below the £450,000,000 set recently by Sir Stafford Cripps as the irreducible minimum. Second: The high price level and over-valued currencies of England (and other countries) made it virtually impossible to sell on a competitive price basis in the United States and other hard currency markets. In other words, commodities that sought foreign markets were over-priced as compared with United States commodities; markets abroad became narrower, and the so-called dollar gap became wider. This dollar gap is the difference between the amount of dollars created by a country through sales of commodities and services and the dollars necessary to purchase essential raw material, machinery, services, etc., in the United States and other countries demanding dollar payment. The dollar gap is no recent innovation brought about by postwar adjustments. It seems to be a chronic malady of many years standing, and as evidence, your attention is called to our export and import figures for 1948. In that year we exported $12.6 billion and imported $7 billion, giving us a favorable balance of $5.6 billion. The reverse side of this picture, however, shows that the world at large was short approximately $5.6 billion to pay for its dollar imports, and this shortage was largely offset by grants of dollars through ECA. For the period 1940 through 1948, we sold to foreign countries over $50 billion more than we bought from them, and this differential was to a great extent offset by United States loans, gifts and grants. Notwithstanding our high degree of prosperity in the United States and our present national income of about $225 billion annually, we are still operating on the basis of deficit financing. I leave to your judgment the additional length of time we can continue adding to our present oversized debt without seriously affecting our own economy and cheapening the value of the dollar to a point where it will be undervalued in terms of sterling and other world currencies. McGraw-Hill in a recent editorial very pertinently remarked:

"It is time for us to recognize that there are two fundamentally conflicting pressures at work in the United States. One is our desire for a big surplus of exports over imports. The other is our desire for a system of free-wheeling trade around the world. We cannot have both unless we as taxpayers wish to subsidize our exports. Which do we want?"

Nation Geared to Large Exports

For some years the economy of the United States has been geared to a large export volume, and perhaps for that reason and in view of present world political and economic conditions, a temporary continuation of export subsidies through ECA or other agencies is advisable.

As an immediate consequence of British devaluation, the cost of U. S. goods to British buyers went up 44%, as one pound, which formerly bought $4.03, now buys only $2.80. In other words, the British buyer now must turn over to his bank, 1.44 pounds instead of 1 pound for the purchase of $4.03 U. S. On the other hand, if the American importer received full advantage of devaluation, he should be able to purchase British goods at 30.5% less than pre-devaluation price, for 1 pound that formerly cost the American importer $4.03, now costs but $2.80, or 30.5% less.

At least in theory, the devaluation of the pound should increase British exports to the United States and decrease imports, thus narrowing the gap between dollar income and dollar expenditures, but whether the result will follow in practice, remains to be determined. By reason of devaluation, England now must export 44% more than pre-devaluation volume to equal the amount of dollar exchange previously obtained, and under existing circumstances that goal is going to be very difficult to attain. Furthermore, American importers will receive the full benefit of the 30½% cut in prices only in few instances, if at all. The full 30½% cut applies to British f.o.b. prices, whereas dollar charges for duties, freight, etc., must be taken into consideration. We must also have in mind that England imports much of its raw material for fabrication from hard currency countries and a certain percentage of the additional cost of 44% due to devaluation must necessarily find its way into price structure. While the price of some British goods will be less to American importers because of devaluation, prices on other non-competitive commodities have been moved up to bring in the same amount of pre-devaluation dollars, and while there may be some increase in our import volume from England, no spectacular increase can be visualized.

Devaluation is by no means the complete answer to England's problem of imbalance of trade. Numerous other measures must be taken concurrently within the country, and they are going to be much more difficult of attainment than the mere act of devaluation. For example, the rate of productivity must be increased, production costs must be held firm or even reduced, goods must be styled for foreign markets, and the art of salesmanship must be revived, for the days are gone when the world will beat a path to the door to buy a better mousetrap. The large backlog of blocked pounds also is a deterrent to recovery, and efforts should be made to effect a solution perhaps by a gradual refunding operation over a long period of years, or by other means that will effectively eliminate the sterling backlog from commercial operations. British goods sold against these balances abroad in many instances contain raw materials that must be imported from hard currency countries, and this results in a further widening of the dollar gap. Lastly, I hesitate somewhat to mention the cost to Britain of her socialistic experiments, particularly as some of our elected representatives seem determined to establish a "Welfare State" in our own country. Mr. Black, President of the International Bank for Reconstruction and Development, recently remarked in substance: "No one can dispute the right of governments to commit themselves to extensive programs of social welfare if they have the means to undertake it"; but the cost of free services immediately results in higher taxes, and higher taxes inevitably result in higher production costs and higher prices.

There are other factors which also might be mentioned, such as high taxes and a top-heavy government personnel, both of which have a tendency to discourage or prevent capital accumulation for modernization of old and installation of new plant equipment, but in mentioning these factors I am nearing the home plate—in fact, I am on it. It is my wholly personal belief that many of those measures will not and cannot be adopted or corrected, and if that is the case, any advantages gained by devaluation, in not too long a

(Continued on page 35)

*An address by Mr. Gentes before the Overseas Automotive Club, New York City, Oct. 13, 1949.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Candidates for Extra Dividend Declarations — List of 67 issues which have excellent prospects for increasing the regular quarterly dividend rate or declaring a sizable extra—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Common Stock Program for Investors — Current revisions in suggested portfolio—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

New York City Bank Stocks—Comparative figures at Sept. 30, 1949—The First Boston Corporation, 100 Broadway, New York 5, N. Y.

1949 Legislation Affecting Eligibility of Government and Municipal Bonds as Legal Investments for Savings Banks in California—Digest—R. H. Moulton & Company, 510 South Spring Street, Los Angeles 13, Calif.

Over-the-Counter Industrial Stock Index — Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Public Utility Stocks for income and capital growth — Leaflet—William R. Staats Co., 640 Spring Street, Los Angeles 14, Calif.

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American Meter Company—Analysis—Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

Argo Oil Corporation — Up-to-date report for broker-dealers only — J. W. Gould & Co., 120 Broadway, New York 5, N. Y.

Also available for broker-dealers is a report on **General Crude Oil Company.**

Associated Electric Co.—Memorandum — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Bassett Furniture Industries, Inc.—Analysis—Scott, Horner & Mason, Krise Building, Lynchburg, Va.

Also available are studies of **American Furniture Company, Inc., Beck's City Bakeries, Craddock Terry Shoe Corporation, and Camp Manufacturing Company.**

Colombia Bolivia—New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Consolidated Edison Company of New York—Study—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Goebel Brewing Company—Bulletin—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Hugoton Production Co.—Analysis—W. C. Langley & Co., 115 Broadway, New York 6, N. Y.

J. P. Morgan & Co., Incorporated—Analysis—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

New York Central—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Oregon Portland Cement—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Rockwell Manufacturing Company—Discussion—Scherck, Richter Company, 320 North Fourth Street, St. Louis 2, Mo.

Shatterproof Glass Corporation—Memorandum — Peter Barken, 32 Broadway, New York 4, N. Y.

NSTA Notes

TWIN CITY SECURITY TRADERS ASSOCIATION

The following new officers have been elected by the Twin City Security Traders Association:

President: John J. Delaney, Delaney & Company, Minneapolis.

Vice-President: Arthur H. Rand, Jr., Woodard-Elwood & Co., Minneapolis.

Treasurer: Robert K. Pillsbury, First Nat'l Bank of Minneapolis.

Secretary: Donald M. Anderson, First National Bank of St. Paul.

Bernard L. Decheine, J. M. Dain & Co., the retiring President, will serve as National Committeeman for the association.

NEW ORLEANS SECURITY TRADERS ASSOCIATION

The New Orleans Security Traders Association has elected the following new officers:

President: Macrery B. Wheeler, Wheeler & Woolfolk.

Vice-President: G. Shelby Friedrichs, Howard, Labouisse, Friedrichs & Co.

Secretary-Treasurer: Arthur Keenan, St. Denis J. Villere & Co.

Jackson A. Hawley, Equitable Securities Corporation, the retiring President, and Wm. Perry Brown, Newman, Brown & Co. will serve as delegates, with Joseph P. Minetree, Steiner, Rouse & Co., and Gilbert Hattier, Jr., White, Hattier & Sanford, alternates.

SECURITY DEALERS OF THE CAROLINAS

Newly elected officers of the Security Dealers of the Carolinas are:

President: John T. Warmath, Equitable Securities Corporation, Greensboro, N. C.

Vice-President: Vivian M. Manning, Greenville, S. C.

Treasurer: Robert B. Dixon, McDaniel Lewis & Co., Grensboro, N. C.

Secretary: H. T. Mills, Jr., Greenville, S. C.

The Business of Education

By ROGER W. BABSON

Mr. Babson, asserting present-day education ought to feature history and romance of professions, industry and commerce, and that high school graduates should know functions of investment of private capital, contends it could be made crystal clear, that unless business can develop as it has in the past, future economic advantages will be less.

Vacations are over. Youngsters are back at school. What will they learn this year that will make them happier, better integrated personalities? What will our schools teach them about the greatness of their country and what made it great? Most of our youngsters will learn that the Pilgrims landed in Plymouth. They will have heard about the battle of Bunker Hill. They know something about Paul Revere. But they will never have set foot inside any plant, large or small, to catch the spirit and romance of American production. Few will ever have contrasted for them in the public schoolroom the American worker's standard of living, working hours, and conditions with those of the workers of Britain, Russia, or even socialistic Sweden.

Roger W. Babson

But our kids will know about Caesar and ancient Rome and Socrates and Aristotle. And they will make abortive attempts to learn Latin and French. I did! They will have their minds disciplined and their brains sharpened by drawing meaningless geometric figures on a blackboard and by stating geometric propositions and citing corollaries. Q. E. D.! But they cannot spell; they will be unable to write a business report, or speak grammatically, or add a column of figures or make accurate change. Even more important, will they have a grasp of our social, economic, and political problems sufficient to make them intelligent voters?

Education for American Civilization

Present-day education ought to feature the history and romance of American professions, industry, merchandising and commerce to which the students owe their present high standard of living—the very best in the entire world. Our literature, mathematics, and science ought to be well integrated into these teachings and not taught as separate subjects.

I am most concerned that so few of our children (I won't embarrass the adults) can explain how their city, state or even nation is run. They don't know enough about the history and development of our country to understand what really made us great. They probably have read about the vulcanizing of rubber in 1839, the early sensitized photographic plates in 1851, and the first Atlantic cable in 1866. They know, too, about the invention of the telephone and phonograph and of electric motors, the X-ray, the automobile, airplane, and motion picture.

Education and Business

But no one seems ever to have told them what has developed the inventions into great American industries. High school graduates should know that it was the investment of private capital, the intelligent management of industry and the sweat of willing workers pulling together as a team that made America great. They should know that American free enterprise with all of its weaknesses has made it possible for them to have the highest standard of living in the world.

Our high school graduates should be given, in addition to a study of the various "isms," an impartial report of the American businessman's point of view that excessive taxes discourage venture capital and the initiative that made us great. It should be made crystal clear to students that unless business, big and small, can develop in the future as it has in the past, the economic advantages will not be as great for future workers and investors as they have been for past generations.

Conclusion

No less a person than General Eisenhower has said that "the army of persons who urge greater and greater centralization of authority and greater and greater dependence upon the Federal treasury are really more dangerous to our form of government than any external threat that can possibly be arrayed against us." What are the schools in your community teaching about this?

Phila.-Baltimore Exchange Lectures

PHILADELPHIA, PA. — The Philadelphia-Baltimore Stock Exchange is sponsoring a series of lectures on Tuesday evenings on the subject of "Invest in America."

Subjects of the lectures are: Oct. 25, "Business Trends and Forecasting, Portfolio Planning, Investment Trusts," D. Moreau Barringer, Delaware Fund, and A. Mayer Kulp, Wellington Fund, speakers.

Nov. 1: "The Trust Company," representatives of Fidelity-Philadelphia Trust Company, Girard Trust Company, Pennsylvania Company for Banking and Trusts, speakers.

Nov. 8: "Government Regulation," William K. Barclay, Jr., Stein Bros. & Boyce, President of the Philadelphia-Baltimore Stock Exchange, and Howard W. York, Drexel & Co., speakers.

Nov. 15: "Stock Exchange Orders." Inspection, at 5 p.m., of the Philadelphia-Baltimore Stock Exchange, with illustrations of executing orders and clearing transactions by the Stock Clearing Corporation, and at 6 p.m. closing remarks by Mr. Barclay, to be follower by a buffet supper.

Enrollment fee is $5 per person.

Bryan With King Merritt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Walker P. Bryan has become affiliated with King Merritt & Company, Inc., Chamber of Commerce Building. He was formerly with G. Brashears & Company for a number of years.

Missouri Brevities

On Oct. 18, Stifel, Nicolaus & Co., Inc., and Metropolitan St. Louis Co. participated in an offering to the public of 100,000 additional shares of common stock (par $10) of The Empire District Electric Co. at $17.12½ per share, the net proceeds of which are to be used to finance in part the balance of the cost of the latter's construction program. Quarterly cash distributions of 31 cents per share were made on this issue on Sept. 15 and June 15, last, compared with 28 cents per share previously paid each quarter. The territory served by the utility firm is located in a compact area embracing southwestern Missouri, southeastern Kansas, northeastern Oklahoma, and northwestern Arkansas, extending approximately 105 miles north and south and 115 miles east and west. The company estimates that the total population of the territory served is in excess of 300,000. For the 12 months ended Sept. 30, 1949, net income, before deducting dividends on the preferred stock, totaled $961,967, equal to $2.19 per common share, against $1,030,283, or $2.39 per common share for the previous 12 months' period. Current assets at the end of July 31, 1949 amounted to $2,213,028, and current liabilities were $1,908,055.

* * *

Reinholdt & Gardner, I. M. Simon & Co., Inc., Stern Brothers & Co., and Stix & Co., and 45 other underwriters on Sept. 22 publicly offered at 102.526% and accrued interest $31,000,000 3½% sinking fund collateral trust bonds, due Nov. 1, 1974 of The West Penn Electric Co.

* * *

An issue of $18,000,000 first mortgage bonds, 2⅞% series due 1969, of The Gas Service Co., Kansas City, was publicly offered on Oct. 6 at 100.75% and accrued interest, the net proceeds to be used as follows: $14,800,000 to prepay loans from insurance and banking firms, and the balance to be added to the company's treasury to reimburse it in part for construction work completed and to provide for the construction of additions and improvements to the company's properties. Blyth & Co., Inc. and Kidder, Peabody & Co. acted as joint managers of an investment banking group which are handling this offering.

The Gas Service Co. is an operating public utility serving an area embracing western Missouri, central and eastern Kansas, northeastern Oklahoma and two communities in southeastern Nebraska. At June 30, 1949, the company served 361,083 consumers, of whom 360,342 were residential and commercial customers.

* * *

For the three months ended Aug. 31, 1949, Rice-Stix, Inc., St. Louis, reported a net loss of $147,187, compared with a net profit after income taxes of $317,512 for the corresponding same period in 1948. For the nine months ended Aug. 31 the corporation reported a net of $181,686, as against a net of $1,654,712 for the same period in the preceding fiscal year.

* * *

The following Missouri bankers participated in the public offering on Sept. 21 of 100,000 shares of Liberty Loan Corp. 90-cent cumulative convertible preferred stock (par $10) at $15 per share: Edward D. Jones & Co., Newhard, Cook & Co., A. G. Edwards & Sons, Metropolitan St. Louis Co., Reinholdt & Gardner, Stix & Co., O. H. Wibbing & Co., and Prescott, Wright, Snider Co.

* * *

Consolidated net sales of The May Department Stores Co. of St. Louis and subsidiaries for the six months ended July 31, 1949, amounted to $180,075,000 and for the 12 months ended July 31, 1949, the volume was $404,020,000. This compares with sales of $183,321,000 and $382,617,000, respectively, for the six and 12 months ended July 31, 1948. Net earnings for the six months ended July 31, 1949, after taxes, were $5,124,000, equal after preferred dividends to $1.55 per share on the average number of common shares outstandinng, compared with $6,475,000, or $2.11 per common share for the corresponding period last year. For the 12 months ended July 31, 1949, net earnings were $18,296,000, equal to $5.91 per share, against $17,155,000, or $5.82 per share for the preceding 12 months. These earnings, for all periods, were calculated on last-in first-out method of valuing inventories. The 1949 12 months' figures reflect the operations of The T. S. Martin Co., Sioux City, Iowa, only from the date this company was acquired, Feb. 1, 1949.

* * *

Newhard, Cook & Co. and Reinholdt & Gardner on Sept. 21 participated in the public offering of 200,000 shares of Carolina Power & Light Co. common stock (without par value) at $29.50 per share.

* * *

Western Auto Supply Co. (Mo.) reports September, 1949 sales of $11,885,000, which compare with $11,264,000 for the like month last year, an increase of 5.5%. For the nine months ended Sept. 30, 1949, sales aggregated $88,264,000, and compare with $91,432,000 for the corresponding period last year, a decrease of 3.5%.

* * *

An issue of $2,600,000 4½% first mortgage sinking fund bonds due Aug. 1, 1964, of The Ohio Rubber Co., has been placed privately through Reinholdt & Gardner and Smith, Moore & Co. of St. Louis.

For the eight months ended Aug. 31, 1949, Illinois Terminal RR. Co., St. Louis, reported a net income, after charges and Federal income taxes, of $445,880, equal to 89 cents per share, as against $905,968, or $1.81 per share, for the corresponding period of last year.

* * *

Edward D. Jones & Co., McCourtney - Breckenridge & Co. and Stix & Co., all of St. Louis, on Sept. 30 participated in the public offering of 10,000 shares of Southwestern Associated Telephone Co. $5.50 cumulative preferred stock (without par value) at $100 per share, plus accrued dividends.

* * *

The Union Electric Co. of Missouri on Sept. 30 filed a registration statement with the Securities and Exchange Commission covering 150,000 shares of no par value preferred stock which will be offered at competitive bidding. The net proceeds are to be applied toward the cost of the utility's construction program.

* * *

Stern Brothers & Co. participated in the underwriting of an offering to common stockholders of Utah Power & Light Co. of 148,155 shares of the latter's common stock, without par value, at $23.50 per share. Of said stock, 49,932 shares were subscribed for on the exercise of subscription warrants which expired on Oct. 5, 1949.

* * *

During the year ended July 31, 1949, National Bellas Hess, Inc., enjoyed its most successful year in its history. Despite a nationwide softening of retail sales volume, net sales hit a record high of $33,696,757, which was an increase of 26.6% over the 1948 record sales of $26,624,711. Profits after taxes were $1,101,288, equal to 46 cents per share on the outstanding 2,385,866 shares of capital stock, which compares with $39,625, or 35 cents per share, for the year ended July 31, 1948. At the close of July 31, 1949, current assets totaled $6,639,435, and current liabilities were $1,653,836.

* * *

Reinholdt & Gardner and Stifel, Nicolaus & Co., Inc. on Oct. 13 participated in the underwriting of an offering of 120,000 shares of Minute Maid Corp. (formerly Vacuum Foods Corp.) $1.60 cumulative prior preference stock (which are convertible through Oct. 31, 1955). Of these shares 116,440 are first being offered to the holders of Minute Maid's $2 preferred stock and common stock at $30 per share, the subscripton warrants to expire on Oct. 25, 1949.

* * *

It was locally reported about three weeks ago that an unofficial estimate of the earnings of F. Burkhart Manufacturing Co. for the nine months ended Aug. 31, 1949, indicated that they exceeded the $5.11 per share earned for the entire fiscal year ended Nov. 30, 1948.

With Frank D. Newman Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Olaf G. Somdahl is with Frank D. Newman & Co., Ingraham Building.

Public Utility Securities

By OWEN ELY

Texas Utilities Company

Considerable Street interest seems indicated in the forthcoming distribution of Texas Utilities Company stock in the dissolution of American Power & Light Co. The American plan has been approved by the SEC, and the Federal court of jurisdiction has ordered a hearing Nov. 7. Based on the court action in the Electric Power & Light case and the Supreme Court decision in the Engineers case, an early decision is anticipated. "When delivered" trading in the five new stocks will probably be initiated as soon as the court's decision is handed down, and it appears unlikely that a 60-day appeal period will prove necessary; a month's delay after the decision might suffice, it is thought, before the new stocks are issued.

The SEC has permitted American to defer the listing of Texas Utilities for a year, but the common stocks of the other subsidiaries are to be listed as soon as the plan becomes effective. Apparently American was able to make out a good case for using over-the-counter facilities, with their substantially larger sales rewards, to effect the "distribution" of Texas Utilities out of speculators' hands to Southern and other investors. This seemed to work well with Southern Company during the few weeks that that stock remained over-the-counter. "WD" purchases also have a special appeal, since in a cash account the buyer need put up only 25% of his cost initially—the balance when the plan is consummated and deliveries made.

Because it is a holding company in the rich Texas area, Texas Utilities seems likely to prove the most popular of the stocks coming out of American Power & Light. It is probably the only holding company specially created in recent years to acquire utility operating companies, and which is expected to receive a clean bill of health (exemption under the Holding Company Act) after American is dissolved. The company was organized in 1945, issuing common stock to American Power & Light Co. in exchange for all of the outstanding common stocks of Texas Electric Service Co. and Texas Power & Light Co. and $17,400,000 in cash. It also acquired 91.3% of the outstanding common stock of Dallas Power & Light Co. from Electric Power & Light Corp., and from a minority stockholder, for $17,401,000 in cash. During 1947-9 Texas Utilities has made substantial additional investments in the subsidiaries, the funds being obtained from American Power & Light, all on an equity basis.

The System capital structure is now about as follows: mortgage bonds 48%, debentures 9%, preferred stocks 15%, minority interest 1%, and common stock equity 27%. These percentages are after elimination of all intangibles; before such adjustment, common stock equity approximates 30% and will probably be kept around that level during the next two years.

The operating subsidiaries of the company form an interconnected and integrated system, wholly within the State of Texas. At Dec. 31, 1948, the subsidiaries served 471 communities with populations of 100 or more, and the population of the area served, including rural areas, was estimated at approximately 2¼ million.

Dallas Power & Light Co. renders electric service in the Greater Dallas area with an estimated population of 507,000. **Texas Electric Service Co.** renders electric service in 117 communities in West Texas, including Fort Worth, Wichita Falls, Odessa, Big Spring, Midland, Sweetwater, Grand Prairie, Lamesa, Monahans, Arlington, Breckenridge, Colorado City and Eastland. The estimated population of the territory served is 696,000. **Texas Power & Light Co.** renders electric service in 349 communities in North, Central and East Texas, including Waco, Tyler, Paris, Temple, Denison, Sherman, Corsicana and Cleburne. The estimated population served is 1,065,000.

Howard Adler, Chairman and President of American Power & Light and also President of Texas Utilities Co., recently gave a talk on the latter company before a capacity gathering at the New York Society of Security Analysts' Luncheon Forum. He stated that Texas Utilities serves over one-quarter of the area of Texas and one-third of its population. He was not disturbed by the presence of several Federal hydro projects in Texas; his company has established friendly relations with them, buying substantial power when it is available. Due to the irregular flow of Texas streams, this power is available at a low annual use factor and hence can best be used to supply short-term seasonal peaks on systems having steam generating plants.

The Texas Utilities System has grown very rapidly—the five largest cities served have grown about three times as fast as the U. S. population since 1900, and even faster since 1940. The revenues of Texas System, projected back to 1938, show an increase of 120% in the past decade. System's revenues are entirely electric and are 40% residential and rural, 33% commercial, 24% industrial and 3% government and municipal. Thus despite the emphasis on industrial expansion in Texas, revenues are still heavily weighted with residential and commercial sales—a stabilizing factor in the unlikely event that industrial expansion might prove to have been overrapid.

Due to the extremely rapid growth of demand for electricity in recent years, the System has had very little spare capacity. This should be remedied by 1952 when the $141 million construction program is completed.

Like some other southern companies, Texas Utilities has a big advantage over northern companies in its supply of natural gas as fuel. Gas for the various plants is purchased in a range of 3½¢ to 10¢ per 1,000 cubic feet mainly on contracts running to 1955-60. When these expire, if the new prices for gas prove too high the company can reopen its big lignite mines which can furnish many years' supply of cheap and convenient fuel for some of its plants. At present these mines are closed.

In the 12 months ended July 30, 1949, the subsidiary companies earned $9,130,000 net equity for the parent company, and after its own expenses and taxes a balance of $8,670,000 remained. It is estimated that expenses and taxes may increase about $100,000 after the dissolution of American Power & Light so that the pro forma balance would be $8,570,000 or nearly $2 a share on the 4,400,000 shares of Texas Utilities. Present dividends are at the rate of $1.12 but with the passing of time a higher dividend for the new stock is envisaged by the Street.

COMING EVENTS

In Investment Field

Oct. 20, 1949 (St. Louis, Mo.)
Annual meeting and election of officers of Security Traders Club of St. Louis.

Oct. 27, 1949 (New York, N. Y.)
New York Group of the Investment Bankers Association annual dinner and election at the Hotel Pierre.

Nov. 15, 1949 (New York City)
Association of Stock Exchange firms annual meeting and election.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 9, 1949 (New York City)
New York Security Dealers Association 24th Annual Dinner at the Hotel Pierre Grand Ballroom

New York IBA Group To Hold Meeting

The annual meeting of the New York Group of the Investment Bankers Association of America will be held at the Hotel Pierre on Thursday, Oct. 27, 1949 at 5:30 p.m.

The Nominating Committee, of which John W. Valentine, Harris, Hall & Co., is Chairman, will offer the following for officers and members of the Executive Committee for the ensuing year:

Chairman: Clarence E. Goldsmith of White, Weld & Co.

Vice-Chairman: Amyas Ames of Kidder, Peabody & Co.

Secretary-Treasurer: Robert E. Broome of Guaranty Trust Co.

Ex-Officio: Joseph A. Thomas of Lehman Brothers; Raymond D. Stitzer of Equitable Securities Corp.

One-Year Term: Duncan R. Linsley of The First Boston Corp.

Two-Year Term: David W. Lovell of Laurence M. Marks & Co.

Three-Year Term: Walter J. Monro of Schoellkopf, Hutton & Pomeroy, Inc.; William M. Rex of Clark, Dodge & Co.

The following members of the present Executive Committee will continue to serve for the terms set opposite their names:

One-Year Term: Rudolf Smutny of Salomon Bros. & Hutzler.

Two-Year Term: James G. Couffer of B. J. Van Ingen & Co.

Nominations for Governors of the IBA are: Raymond B. Stitzer of Equitable Securities Corp. and Duncan R. Linsley of The First Boston Corp.

Chairman Education Committee: Norman Smith of Merrill Lynch, Pierce, Fenner & Beane.

Chairman Legislation Committee: Alvin J. Schlosser of Blyth & Co., Inc.

Chairman Municipal Securities: Cheever J. Hardwick of Smith, Barney & Co.

Representative National Municipal Securities Committee: Orlando S. Brewer of Phelps, Fenn & Co.

Chairman Public Education Committee: Frank M. Stanton of The First Boston Corp.

At this meeting reports will be received covering the activities of the various Committees. Action will be asked to amend the group by-laws to provide for the inclusion of the Territory of Puerto Rico in that covered by the New York group.

Edwin D. Berl Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — John D. Berl has joined the staff of Edwin D. Berl & Son, 333 Montgomery Street, members of the San Francisco Stock Exchange.

Supreme Court Reinstates Otis Case

Highest tribunal rules Securities and Exchange Commission must complete its proceedings before a judicial review can take place.

The United States Supreme Court, on Oct. 17, handed down a decision setting aside a ruling of the Circuit Court of Appeals, which restricted the action taken by the Securities and Exchange Commission against Otis & Co., investment bankers, in their dispute with the Kaiser-Frazer Corporation that grew out of the offering of the latter's common stock last year. Under the lower court's decision, the SEC was prohibited in its proceedings from consideration of alleged improper conduct on the part of Otis & Co. in refusing to carry out an underwriting agreement with the Kaiser-Frazer Corporation, because material litigation against the automobile company developed before the consummation of the contract. Under the terms of the underwriting agreement, it was provided that the underwriters could cancel the contract if such litigation developed. The SEC contended that the litigation was instigated by Cyrus S. Eaton, largest stockholder of Otis & Co. On the basis of this contention, the SEC undertook an investigation with a view to suspending or revoking the dealer-broker license of Otis & Co.

The Supreme Court ruled that the defendant in an administrative proceeding, such as the SEC's case against Otis & Co., could not appeal for judicial review until the case had been completed. Otis & Co., therefore, will have the right to appeal to the Circuit Court any SEC decision resulting from the hearings.

W. W. Woods, Jr. With Conrad, Bruce & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William W. Woods, Jr. has become associated with Conrad, Bruce & Co., 530 West Sixth Street. Mr. Woods was formerly with Bateman, Eichler & Co. and prior thereto was an officer of Fox, Castera and Co. and Edgerton, Riley & Walter, Inc.

Central Hanover Group To Hold Meeting

The Quarter Century Club of Central Hanover Bank and Trust Company will meet tonight at the Hotel Roosevelt. The Club has a membership of 393 men and women who have been in the employ of the bank for 25 years or longer, and the dinner and entertainment is an annual event. William S. Gray, President of Central Hanover, will address the guests. A. T. Galloway, Assistant Vice-President of the Bank, is the retiring Club President.

Hipp & Hipp

(Special to THE FINANCIAL CHRONICLE)

MILLERSBURG, OHIO—R. P. Hipp and G. R. Hipp are engaging in a securities business.

Connecticut Brevities

Directors of **Travelers Insurance Company** have voted to recommend a 100% stock dividend on the company's capital stock. Stockholders will meet on Oct. 31 to vote on the proposal to raise the authorized capitalization from 200,000 to 400,000 shares of $100 par stock. If approved, the additional shares are expected to be distributed on or about Dec. 15 to stockholders of record Nov. 25. The increase, which is the first by the company since 1929, is intended to preserve a reasonable proportion of capital to the increased size of the companies and the increased volume of business. Directors have also stated the intention of declaring quarterly dividends of $3 a share after the distribution. On the present stock a total of $22 has been declared for 1949.

* * *

A meeting of **Connecticut Power Company** stockholders has been called for Oct. 24 to act on the acceptance of two amendments to the company's charter. The amendments were approved by the 1949 Legislature. The first will allow the company, subject to approval of the Public Utilities Commission and the stockholders, to increase its capital stock without limit. It also authorizes the issuance of preferred stock. The second will permit the issuance of stock without giving stockholders subscription rights.

* * *

Aspinook Corporation's annual report covering the period from Dec. 18, 1948, to June 30, 1949, reveals that earnings for the period were equal to $1.54 per share of common stock. At the year-end cash and working capital were equal to $4.39 and $5.55, respectively. On Sept. 9 the company announced that since the fiscal year tenders had been accepted on $434,000 par value of its 5% bonds due April 1, 1952, leaving $1,792,400 outstanding.

* * *

For the fiscal year ending June 30, 1949, **Locke Steel Chain Co.** reported sales of approximately $4.0 million against $3.2 million the previous year. Net per share earnings were $4.17 compared to $4.18 last year. During the fiscal year dividends of $2.40 per share were paid on the common stock.

* * *

For the fiscal year ended July 31, 1949, sales of **Royal Typewriter Company** were $45.2 million, second largest in the company's history. Net income for the year was equal to $3.19 a share compared to $4.98 the previous year. The annual report stated that during the past 10 years the national price average of durable goods has risen 95%, while the price of the company's most popular office and portable typewriters have only gone up 24% and 38%, respectively. Royal had about 8,600 employees and 2,710 stockholders at the year-end.

* * *

United Aircraft Corporation has announced that it will accept bids for its plant at Stratford between Oct. 6 and Nov. 21. The plant was formerly used by the Chance Vought Division which is now located in Texas. Part of the plant is owned by the Navy which is disposing of its interest in the plant through the General Services Administration.

* * *

Casco Products Corporation's plant at Bridgeport is now operating some of its departments 24 hours a day, seven days a week. The number of company employees has risen about 10% in recent weeks to the present level of about 1,800. The increased rate of operations is to supply the Christmas season orders for newly-introduced steam irons, sealed beam spotlights, electric heating pads and hobby tool kits.

* * *

Electrolux Corporation has announced that it has awarded a construction contract to expand its main plant at Old Greenwich and to build a recreation building for the use of its employees.

* * *

Connecticut Power Company has called for redemption on Nov. 1 at par and interest $60,000 of its first and general E 3s due Nov. 1, 1973. Payment will be made at the Hartford National Bank & Trust Co.

* * *

A block of 62,418 shares of **Associated Spring Corporation** was offered on Sept. 29 at 27¼. The stock was owned by the estate of a former director and did not represent new financing. At the time of the offering the management stated that earnings for the first eight months of 1949 were equivalent to $1.41 per share of common stock.

* * *

A meeting of **Phoenix State Bank & Trust Company** stockholders has been called for Oct. 25, 1949, to vote on the proposed change in par value of the capital stock from $100 to $25 per share and increase the capitalization from 16,000 to 64,000 shares. At the same time, the stockholders will also be asked to approve the merger with Capitol State Bank & Trust Company.

New Partnership

A new New York Stock Exchange partnership to be known as Wm. M. Rosenbaum & Co. will be formed Nov. 1 with offices at 285 Madison Avenue, New York City. Partners will be William M. Rosenbaum, Albert F. Rosenbaum, Louis Goldstein, and Julius D. Schlein, the firm's Exchange member. Mr. Schlein was formerly a partner in Jerome Melniker & Co. The other partners were associated with the predecessor partnership of Wm. M. Rosenbaum & Co.

Devaluation—A Warning

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Asserting a policy of free currency convertibility at rates determined by open market would base world trade on honest values and reestablish trust necessary for international investment, Curb Exchange executive warns current arbitrary devaluations do not set currencies free to find their market levels. Foresees more stringent controls, and advocates free international market for money. Holds constant lowering of purchasing power "is blowing our wealth away," and pleads for more individual freedom. Hints return to gold standard "may be good path to take."

For a long time many of us have believed that our nations cannot hope to rebuild world trade or expect substantial international investment until we have dropped the false front of official rates of exchange and allowed the free market to evaluate the ever changing relationships between our monies. We felt sure that free convertibility of currencies would alter the unrealistic values to which governments had been desperately clinging in the face of basic trade forces. It was obvious that the value of the pound in terms of dollars, if left to the free market, would fall to a level substantially below the old official rate.

Francis A. Truslow

No advocate of free market valuation had any illusions as to the difficulties which a return to free convertibility would create. The gap between pretense and reality had widened so far—in a sense, the patient had been kept under dope and isolated from facts so long—that the adjustment back to real values was bound to be harsh. But at least a policy of free convertibility at rates determined by the open market would base world trade once more on honest values and reestablish the trust necessary for international investment.

However, currencies were not set free to find their market levels. Instead, so-called "devaluation" was selected as the method for bridging this gap. Devaluation has many things in common, at the start, with free convertibility. It drops the official rates of conversion into at least the area where free economic forces might have placed them. It calls for many adjustments. It may, at least temporarily, give price advantages to the trade of the devaluing countries in dollar areas.

But a policy of repudiating one artificial rate of exchange and arbitrarily selecting another differs fundamentally from a policy of allowing the open market to express what the rate is. It establishes a new rate, momentarily perhaps more realistic; but, because that new rate is no more than a fixed, official guess dictated more by the political and commercial strategy of the moment than by the underlying facts of world trade, it is bound soon to become a new fiction propped above, or pressed below, reality. It creates an appearance of stability in a situation which is inherently subject to change.

No Stability by Decree

We are well aware that it is nonsense to talk of stability of forces, or permanence of economic relations, between individuals. Why can we not see that it is an infinitely greater absurdity to base a nation's future on the capacity of its government to order stability by decree in the trade of many nations. Who knew two years ago that the porous reefs below the surface of Alberta might balance your needs in my country? Who knew that our laboratories might upset your rubber trade with the Far East? In fact who knows even now whether they will or not?

What our dollar is worth in terms of sterling today is not what it was worth on Oct. 19 last year, nor what it will be worth on Oct. 19, 1950. Unless trade is allowed to adjust continuously to changing relationships which are reflected in a free international market for money, we can expect another yawning gap to develop between the official fiction and the underlying reality. We can expect another shock on another Sunday evening.

If these statements seem to you too general, let me insert one reference to the particular. In the last month 26 countries have picked new rates for conversion of their monies in and out of dollars. Of these, 18 have followed England in selecting the identical percentage for their devaluation. Between each of these countries and the United States, and between each two of these countries, great differences in trade exist, yet all have reduced the expression of these relationships by 30½%. All that would be necessary to balance out this economic absurdity would be for my country, as some have suggested, to add the fool's cap of an equivalent devaluation of the dollar. Then we would all truly resemble the king who is remembered only because:

"Up the hill he marched his men,
And then he marched them down again."

It is, of course, possible that the governments which have recognized the unreality of their old rates and resorted to devaluation have done so as a first step toward free convertibility and valuation by free market action. Certainly some lip service has been paid to this idea. We may be hopeful of such intentions, but we have reason to be skeptical. Even after the warning of wholesale devaluation—a warning that the "managed paper money standard" has broken down—governments will be reluctant to admit failure and to abolish the controls over their citizens which are the corollaries of a "paper standard."

More Stringent Controls Expected

The fruit of devaluation will indeed be more stringent controls. The very artificiality of the policy indicates that it is primarily a political and a commercial policy intended to push exports into dollar areas and not part of a long range monetary program. It does not have the appearance of a first step on the path back to free market determination of money relationships. It suggests expediency rather than a willingness to face facts. Sir Stafford Cripps has been quoted as saying that the purpose of devaluation could be summed up by the statement that "lower exchange rates will make it possible for Britain to sell more of her goods in dollar markets."

Since devaluation can only succeed in this sales objective if productivity in England for dollar export is stepped up more than 44% in tonnage (assuming the full 30½% decrease is reflected in dollar prices), or if imports are cut more than 30½% (or through some equivalent combination), we can imagine the multiplicity of internal controls and repressions which must be added to devaluation to accomplish its aims. We don't need to imagine all of them; some of them have been announced in London already.

If England, or any other one of the radically devaluing countries is, as they assert, on a full employment basis, where will this increased productivity come from? What incentives will drive the people, already fully employed, to greater efforts and greater production? Production cannot be induced by increased wage or profit incentives. That would be inconsistent with the need for curbing the inflationary effect of devaluation. Taxes on incomes must be raised sharply, as presently promised, and wages must be frozen though costs of imported goods from dollar areas must go up.

The warning that devaluation brings to all of us is not merely that the paper standard is a failure but, more serious by far, that human freedom must be further repressed in the devaluing countries to make devaluation work. More controls, and sterner enforcement of those controls, must replace what little personal incentive remains in the iron hope that production will increase. The carrot before the donkey must be trimmed down and the stick behind must be enlarged.

It is this threat to freedom that is implicit in devaluation. It is this threat that we must not fail to see.

The people of my country and yours have grown great and independent in a tradition of freedom—a tradition that we drew from our mutual mother-country. (Let me hasten to add that both of us also inherited a part of that tradition from our aunt on the continent. In fact, that aunt gave my country strong support when we differed with our mother on this same subject of freedom a century and a half ago.)

Smothering Our Freedom

But the sad fact is that freedom is today being smothered in our own family. No good can come from our pretending that Englishmen still enjoy the same liberty they passed down to us and which we have each asserted in our own way. I can see, at the heart of devaluation, a warning that still less of that liberty will remain in England and in our world when these policies have run their course.

You and I are not politicians. We are just a few of the people who will be less free. We must dare to hear this warning before it is too late.

Today our representatives in many lands profess to be ridden by the fear that our people, if faced with the truth and asked to live within their means, would throw away their freedom and troop off like little children behind the evil Pied Piper of Moscow. It seems that there are leaders in our world who would, with the best of intensions, lead

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*An address by Mr. Truslow at a dinner meeting of members and partners of Montreal Stock Exchange and Montreal Members of the Investment Dealers Association of Canada, Oct. 19, 1949.

How Advertising Increases Securities Values

By STANLEY HAROLD MORGAN*
Financial Analysis and Research, Chicago

Maintaining advertising is a major influence in creating and sustaining value of a company's securities, Mr. Morgan points out holdings of leading investment trusts comprise securities of well advertised companies. Says advertising builds up asset values, and a well advertised company is likely to have its earnings capitalized at higher rate than comparatively unknown company.

The basic premise of this address is that the advertising dollar spent for product advertising can produce, in addition to income, long-term capital gains without further cost to the enterprise. Because of the indispensable contribution of advertising to the creation of product sales and earnings, it may seem natural to regard this function as the end of advertising's usefulness to the enterprise. The financial management of some companies seems to carry this viewpoint to extreme points at both sides of the business cycle.

Stanley H. Morgan

When times are good the attitude seems to be that advertising is not justified, because more sales are not needed. When conditions are depressed and money scarce the attitude seems to be that advertising cannot be afforded. But there is another viewpoint of importance to the advertising agency, the advertiser and the stockholder.

The yardstick of any management's achievement is not excellence of product, volume of sales or even the amount of earnings alone. The yardstick is a simple one: Has the management increased the value of the stockholders' ownership either through dividends or long-term capital gains?

Actually, management has no other economic function than to reward the stockholders for their risk. This reward is payable in two ways: First, the payment of dividends to the stockholders for the hire of their money; Second, by enhancement of the value of the stockholders' ownership itself.

The advantages to the management in promoting the equity value for its stockholders in every legitimate and ethical way are substantial. Such a management may expect solid support from these people. Management's own position should become more profitable and more secure. The opportunities of such management are likely to be widened, as a loyal stockholder group constitutes an excellent marketing base when new capital is required.

The Investment Aspect

Let us look at the investment aspect first. An effective advertising record is widely regarded as concrete evidence of a company's progressive management policies. This view is widely held among investors, commercial bankers, investment bankers. Hard-hitting advertising, merchandising and sales promotion give first rate evidence of the company's determination not only to preserve its position in its industry but to improve it.

Investors do consider the prestige and brand preference which an enterprise develops through advertising. Many investors today practically disregard the tangible assets of an enterprise and give the balance sheet little or no attention. Their attention is on the income statement. And they pay as high a ratio or even higher ratio for earnings developed largely from advertising as for earnings produced largely from physical assets.

In a booklet published under the title, "We Lifted the Lid on 'Asked' versus 'Bid,'" "Business Week" magazine reported upon a questionnaire sent the partners in a number of prominent New York underwriting and investment firms worded as follows:

"Do you feel that such a program of advertising by a company gives its securities an advantage of market stability and demand over those of lesser known companies?"

"Business Week" reports that it "discovered that one of the major influences in creating and sustaining the value of a company's securities is . . . advertising."

An investment banker is basically a merchant and behaves like a merchant. He does not permanently invest his business capital in an enterprise. His funds are used only for the short period of time that his underwriting contract may continue—if he assumes an underwriting contract. He may act upon an agency basis.

The business function of an investment banker is that of any middleman. His position is similar to that of any wholesaler of merchandise. He wants goods—securities in his case—which the retail dealer will accept for distribution to the individual investor. And, of course, the retail dealer, like all retailers, wants goods—securities in his case—that his customers will buy readily and without resistance.

It is clear that when the investment banker can show the retail dealer securities of an enterprise which is well known through a long and successful advertising record the securities are likely to be easier for the retailer to distribute. The basic principles of distributing securities are in no wise different from those in the merchandising of cigarettes or any other item of commerce.

Leading Investment Trusts Use Well-Advertised Companies

The portfolios of the 87 leading open-end investment trust funds are largely composed of securities of enterprises which are so well-known through their years of heavy advertising as to have their names words of household currency. For instance, some of the chemical stocks in the Massachusetts Investors Trust as of Dec. 31, 1948, included the following:

Allied Chemical & Dye Corporation;
Du Pont de Nemours & Co.;
Hercules Powder Co.;
Monsanto Chemical Co.
Union Carbon and Carbide Corporation.

These funds using securities largely of well-advertised enterprises have received over $1 billion of public support since 1940 and now have over $1.6 billion invested in them. Even in the generally adverse market years of 1947 and 1948 these funds using their well-advertised vehicles attracted $178 millions and $147 millions, respectively.

This financial support in the public securities markets has undoubtedly contributed materially to the comparative price stability of many of these stocks and has protected probably billions of dollars of equity values held by stockholders of these well-advertised companies. Prices may not have declined needlessly under small volume of liquidation.

Enterprise Today Must Win Public Acceptance if It Is to Secure Public Funds on Favorable Basis

Since the end of World War II business enterprises have been forced to make greatly increased investment in machinery and plant to give an individual worker a job. Inflationary pressure had been growing year by year forcing business enterprises to use larger and larger amounts of capital. Under the force of this pressure many solidly placed companies have found their finances sorely strained.

The need for additional capital continues to grow increasingly more severe. As a matter of realistic financial management every enterprise needs the path as open as possible to the financial market and its credit there as strong as it can establish. This is true whether the company still remains closed or has had public financing. If the company is closed the need for public financing could become acute in the event of the death of a principal owner.

This means simply that more of the capital must come from the public. As more and more companies have sought public financing, some unsuccessfully, it has become increasingly apparent that an enterprise must win public acceptance in advance of its solicitation of the public for capital. No more effective means exists to win public acceptance than good advertising and the integrity that good advertising implies.

The American Telephone & Telegraph Company is an excellent example of the long-term, heavy use of advertising. The management of this universally respected enterprise seems to feel that its advertising job is never completed.

The judgment of the management in its huge advertising investment to secure public acceptance seems particularly justified in the difficult market existing in the Fall of 1947. The company was able to borrow the great sum of $360,000,000—three hundred and sixty million dollars — from its own stockholders at a very low rate of interest and without even the use of an investment underwriting house.

The value of having a well established advertising trade-mark was clearly demonstrated by the successful offering of stock by the H. J. Heinz Company, makers of the "57" brand foods, in the face of a severely declining market in the Fall of 1946. The company had previously been a closely controlled enterprise for many years but when the need for funds arose the company invited the general investing public to participate.

At the time a badly frightened public was throwing the stocks of many good companies into the market at rapidly declining prices but they readily over-bought the stock of the H. J. Heinz Company. The investment bankers serving the company did not have to acquaint investment dealers over the country with the Heinz name or the integrity of the company. The investment dealer did not in turn have to sell the name of the company or its integrity to its own clientele.

The recent offering by Liggett & Myers of 784,000 shares to its own stockholders was over 99% subscribed by them. The offering was so successful that it attracted attention throughout the financial and business press.

One phase of this subject is shown by the fact that better-advertised enterprises have frequently acquired lesser-advertised

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*An address by Mr. Morgan before the Central Council of the American Association of Advertising Agencies, Chicago, Ill., Oct. 14, 1949.

Michigan Brevities

Sales of King-Seeley Corp., Ann Arbor, for the year ended July 31, 1949, amounted to $21,455,406, or $1,927,278 below the all-time peak sales of the previous year. Net income after charges and Federal income taxes was $1,836,187, or $4.52 per common share, compared with $1,964,304, or $4.84 per common share, before provision of $350,000 for inventory contingencies, for the year ended July 31, 1948. The report states that "it was not necessary to make use of any part of the company's lines of credit, totalling $2,500,000, with The Manufacturers National Bank of Detroit, The Detroit Bank, and Ann Arbor Bank. During the fiscal year, 4,897 shares of preferred stock were acquired in the open market at a cost of $99 984 and were retired. After deducting the preferred stock equity at par, the book value of the common stock was $21.69 as at July 31, 1949. The company's corporate charter now expires on July 28, 1979, having been renewed for another 30 years.

* * *

First of Michigan Corp. and McDonald - Moore & Co., on Sept. 14 participated in the public offering 250,000 shares of Louisville Gas & Electric Co. (Ky.) common stock, without par value, at $30.37½ per share. The net proceeds will go to Standard Gas & Electric Co. The sale reduces Standard's holdings from 385,308 shares to 135,308 shares and reduces its percentage of voting power from 19.97% to 7.01%.

* * *

The Detroit Stock Exchange reports that trading volume in September was 252,393 shares having a dollar value of $3,311,627. For August the volume was 268,943 shares with a dollar value of $3,305,804, and for July 204,839 shares with a value of $2,484,225.

The 10 most active traders for the month of September were: Commonwealth & Southern Corp., Detroit Edison Co., Detroit & Cleveland Navigation Co., McClanahan Oil Co., Goebel Brewing Co., Sheller Manufacturing Corp., Consumers Power Co. common ("w.d.") stock; Kaiser - Frazer Corp., Friars Ale Brewing Co. and Avco Manufacturing Corp.

* * *

Continental Motors Corp. and consolidated subsidiaries had net earnings in the nine months ended July 31, 1949 of $1,701,005, or 52 cents per share on the 3,300,000 common shares outstanding. This compared with $2,536,129, or 77 cents per share in the like period last year. Sales for the nine months this year were $58,693,391, compared with $85,592,860 a year ago. C. J. Reese, President, stated that inventories at July 31, 1949 were 22% less than at the same date in 1948, amounting to $14,175,077, against $18,123,468. Current assets, including $11,225,303 cash and marketable securities, totaled $33,368,470, against current liabilities of $11,522,635, leaving net working capital of $21,845,835. This was an increase of $1,209,005 over the total a year ago.

* * *

Baker, Simonds & Co., Detroit, among others, participated in the offering on Sept. 21 of 100,000 shares of 90-cent cumulative convertible preferred stock (par $10) of Liberty Loan Corp., Chicago, at $15 per share.

* * *

The Dow Chemical Co. of Midland, and its subsidiaries, for the three months ended Aug. 31, 1949 reported consolidated net sales of $47,557.730 and net earnings, after charges and income taxes, of $5,957,148, or $1.04 per common share, compared with net sales of $46,968,548 and net profit of $6,393,445, or $1.15 per common share, for the corresponding period of 1948. These earnings were after deducting dividends of $625,000 on the preferred stock in both periods.

* * *

First of Michigan Corp. and Watling, Lerchen & Co., were among the group of 49 underwriters who on Sept. 22 publicly offered $31,000,000 3½% sinking fund collateral trust bonds, due Nov. 1, 1974, of The West Penn Electric Co. at 102.526% and accrued interest.

* * *

Hayes Industries, Inc., Jackson, for its fiscal year ended July 31, 1949 reported net sales of $7,550,316, and net earnings, after Federal income taxes, of $537,165, or $1.61 per common share, compared with sales of $5,735,106 and net earnings of $439 218, or $1.32 per common share, for the previous fiscal year. At July 31, 1949, current assets amounted to $2,257,262, and current liabilities totaled $736,256. There were 1,667 stockholders owning 333,000 shares of common stock, par $1.

* * *

Watling, Lerchen & Co., Detroit, on Oct. 6, together with others, publicly offered an issue of $18,000,000 first mortgage bonds, 2⅞% series due 1969, of The Gas Service Company, Kansas City, Mo., at 100.75% and accrued interest.

* * *

George J. Burke, of Ann Arbor, one of Michigan's best known attorneys, has been elected a director of The Detroit Edison Co. to succeed Ralph T. McElvenny of Chicago, who has resigned. Mr. Burke has practiced law in Ann Arbor since 1907, is Counsel for the Board of Regents of the University of Michigan; President of the Citizens Mutual Automobile Insurance Co., Howell; Counsel for the Ann Arbor Trust Co., and the Ann Arbor Bank, and Chairman of the operating committee of Arhus, Inc., Ann Arbor.

* * *

Northern Engineering Works, Detroit, reports that shipments for the 10 months ended Sept. 1, 1949 amounted to $2,322,000, compared to $2,441,000 for the like 1948 period. Profits for the nine months ended Aug. 1, 1949, were $409,257, against $465,531 for the corresponding period in the preceding fiscal year. As of Sept. 1, 1949, the order backlog amounted to $668,000, against $1,185,000 a year before.

* * *

Sales of Gerity-Michigan Corp. for the fiscal year ended June 30, 1949, totaled $15,646,244, a new all-time record. For the preceding fiscal year, sales amounted to $14,074,597. Net profit, after taxes and all charges, was $633,967, or 83 cents per share (including a non-recurring profit of $241,155, or 31 cents per share on sale of machinery and equipment), which compares with a net of $652,494, or 85 cents per share, for the fiscal year ended June 30, 1948. The corporation's net worth at June 30, 1949 was $4,040,404, or $5.26 per share, against $3,649 952, or $4.75 per share on the corresponding date in 1948.

Foreign Aid and Foreign Trade

By WILLIAM McCHESNEY MARTIN, JR.*
Assistant Secretary of the Treasury

Asserting goal of U. S. foreign aid is self-sufficient Europe by 1952, Treasury official says serious problem is restoration of balance in our international trade. Holds U. S. creditor position requires continuation of heavy investment abroad for long time to come, and looks for increasing imports of foreign goods and services into U. S. Opposes however, sacrificing our vital export interests or permanently subsidizing Europe, but favors relaxation of U. S. barriers to international trade.

Naturally, a group like this has a primary interest in the management of a Federal debt in excess of $250 billion. The policies pursued cut across the fields of money, credit, prices, wages, taxes, interest rates, and the formation of capital. How effectively the debt is handled in terms of reduction, whenever possible, distribution to meet the needs of all investor groups, and relationship to monetary and credit control, is a matter of vital concern to every citizen of this country. Difficult as was the task of raising these staggering sums, it is likely, in retrospect, to prove child's play compared with the complexities of management the Treasury now faces. The advice and understanding of the entire financial community is needed, as never before.

Wm. McC.Martin,Jr

My particular sphere of responsibility in the Treasury, however, is in the field of International Finance and its relation to the problems of our fiscal and monetary policies. The Office of International Finance in the Treasury advises the Secretary on the formulation and execution of programs and policies in the international financial and monetary field. In doing this, its purpose is to see that the money spent in our foreign financial activities is expended wisely and to promote policies which will ultimately reduce the strain on our own budget. The advice and criticism of groups such as this will always be welcome and it is my hope to hear from many of you from time to time as to any suggestions you may have toward furthering this objective.

World War II has brought about important changes in the structure of world commerce, and we must squarely face the new responsibilities which the changing character of the world economy has thrust upon us. Accordingly, I want briefly to review with you this morning what the United States has been doing with its foreign aid programs, and how the growing importance of our foreign trade is directly connected with our Federal budget.

We in the Treasury, like yourselves, are looking forward to an early end of United States extraordinary economic assistance. No one likes to give away money indefinitely, nor do self-reliant people enjoy receiving on such a basis. Let us not fail to recognize, nevertheless, the crucial importance of our postwar aid and the vital necessity of continuing the Economic Cooperation Administration until Europe is more nearly self-supporting than it is at present.

It seems to me that the whole approach taken by the American Government after this war contrasts most favorably with the approach taken at the end of World War I. In no area is this reflected more clearly than in the contrasting attitude toward the repayment problem after the two wars.

After World War I, we insisted without any regard to the feasibility of repayment in real goods, that our European allies repay for all United States aid, even for the shot and shell which had been expended on the field of battle. After World War II, in contrast, there has been a growing appreciation of the fact that we can approach the whole foreign lending problem only from the point of view of a true appraisal of the recipient countries' capacity to repay.

In the case of Europe, there is an increasing recognition that we cannot reasonably expect Europe to repay all, or perhaps even a major part, of the total economic aid required from the United States. It was the original hope of this government that the emergency reconstruction process could be met entirely through loans. As we all recall, a large measure of dollar aid was rendered in 1946 and 1947 on a straight loan basis. There were the British loan of $3,750,000,000, Export-Import Bank reconstruction credits of over $2,000,000,000, and surplus-property and post-VJ-day lend-lease credits of over $2,000,000,000.

By the middle of 1947, however, it had become generally recognized that some new way of financing the dollar aid requirements of Europe had to be found, and that they would have to be met directly by the United States Government. Accordingly, the logical and necessary bulwarks to the Export-Import Bank reconstruction credits and the British line of credits were the interim aid grants to France, Italy, and Austria, in the Winter of 1947 and the ECA grants and loans now being utilized. The emergence of the European Recovery Program reflected the conviction of the Executive Branch and Congress that the remaining postwar dollar aid requirements might extend over a further four-year period, might amount to as much as $17,000,000,000 and would have to be met largely on a grant rather than a loan basis.

Goal—A Self-Sufficient Europe

The United States cannot shirk its responsibilities as the greatest economic power and the greatest creditor nation in the world today. The goal of our foreign aid program is a self-sufficient Europe by 1952. While the European countries have made substantial advances under the European Recovery Program, much remains to be done if the dollar gap is to be closed and they are to be able to stand on their feet. Recent adjustments in exchange rates should help many of these countries to improve their dollar position and to move toward a higher level of trade in both directions. However, this action does not constitute a cure-all for

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*An address by Mr. Martin before 47th Annual Convention of the Savings Banks Association of Connecticut, Whitefield, N. H., Oct. 18, 1949.

Securities Salesman's Corner

By JOHN DUTTON

Here is a suggestion that someday may come in handy if you too are faced with a similar situation. There are times when you must make two sales in order to make one. In this instance a certain salesman of our acquaintance had spent almost two hours in the home of a prospect explaining the merits of his proposition. The call was made in the evening and it finally wound up where the prospect said he would go ahead but that he wished to discuss the matter with his nephew the next morning and he would let the salesman hear from him then.

As you can see, this put the salesman in a very awkward position. First of all the prospect had to drive about 20 miles to see the nephew, and it was doubtful if he could conveniently contact the salesman the next day. No set time could be made when the salesman could call him either. Sizing up the situation the only thing left to do was to suggest that the salesman might join his prospect the next morning and they should go out to see the nephew together. This was arranged and the salesman met his potential client the next morning and they drove out to see the nephew.

During the ride together no mention was made of business and the conversation was kept on an informal and friendly basis. Arriving at the destination the salesman was introduced to the nephew and the purpose of the mission was related by the prospect to the nephew. Then he turned to the salesman and asked him to explain the proposition once again.

Here is where the salesman took a chance and it worked. He believed that the prospect was by this time thoroughly sold on going ahead. He also guessed correctly that he had done a complete enough job of explaining the highlights of his proposal the preceding evening, so that the *prospect could do the selling job* on the nephew. So he said, "You know, I think you can almost do a better job of explaining what this is all about than I can, why don't you tell your nephew about it. Then if you need any assistance, which I don't think you will, I'll be glad to help along." Within five minutes the nephew's O.K. was granted. All he said was, "Why, if you think it is O. K. and you feel this way about it, surely we ought to go ahead."

Sometimes you can pitch the ball to the other fellow as was done in this case. Surely it was more effective to have the uncle tell his nephew why he thought the proposition was worthwhile than for the salesman to do it. The two hours spent explaining the night before had soaked in, and there was no doubt in the salesman's mind of the prospect's sincerity, after he had consented to their going together the next morning to see the nephew. It was also obvious that the nephew had a very high regard for the judgment of the older man and closing the sale in this manner was not only effective but also complimentary and pleasing to them both.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Robert B. O'Brien, an Assistant Vice-President of the **Chemical Bank & Trust Co. of New York** since 1947, has been appointed a Vice-President, according to an-

Robert B. O'Brien Maurice T. Moore

nouncement made on Oct. 13 by N. Baxter Jackson, Chairman. Mr. Jackson also made known on the same day the election as a member of the board of directors of the Chemical Bank & Trust of Maurice T. Moore of the law firm of Cravath, Swaine & Moore.

Prior to joining the Chemical staff, Mr. O'Brien was associated with the **Central Hanover Bank & Trust Co.** and represented that bank in New York, New Jersey, Pennsylvania and Delaware territory. For some time he has been supervising the western business of Chemical Bank & Trust Co.

Mr. Moore, who has been a member of the above law firm since 1926, is Chairman of the Board of Time, Inc.; director of Studebaker Corp. and of the Pennsylvania Glass Sand Corp., etc. From April to September 1948, Mr. Moore was special assistant to Paul G. Hoffman, Administrator Economic Cooperation in Washington, D. C.

* * *

It was made known over the past week-end that the **Manufacturers Trust Co. of New York** has arranged to purchase the assets of the **National Bronx Bank,** also of this city, at Melrose Avenue and 150th Street. Owners of two-thirds of the stock of the latter have, it is stated, consented in writing to the transactions; the stockholders of the Bronx Bank will act on the plans on Oct. 27, the merger, it is planned, becoming effective Nov. 10. In his advices to the stockholders of the National Bronx Bank, Harvey L. Schwamm, Chairman of the Board and President of the bank, stated that under the terms of the contract entered into, the Manufacturers Trust Co. will assume all deposit liabilities of the Bronx Bank, and will continue to operate the branches of the latter, retaining its personnel. The present board of directors of the National Bronx Bank have agreed to serve as an advisory board for the latter's offices. The Bronx Bank has a capital of $1,000,000 (in shares of $10 each) and its resources are reported in excess of $49,000,000. It was formed in 1931 through the consolidation of the Melrose National Bank and the Port Morris Bank. Following the consummation of the present plans, it is understood that Mr. Schwamm will devote his banking interests mainly to the business of the Pan American Trust Co., in which, it is said, he owns a 90% stock interest.

* * *

Williard K. Denton, President of **The Manhattan Savings Bank of New York,** has announced that Norman C. Lyman and Alan C. Gardner have been appointed Assistant Vice-Presidents. Mr. Lyman is in charge of the FHA division of the bank's mortgage department. Mr. Gardner is in charge of the bank's appraisal department.

* * *

The Bank for Savings of New York opened its new Peter Cooper Office at the southeast corner of 2nd Avenue and 23rd Street, on Oct. 17. DeCoursey Fales, President of the bank, states that the new office "will be a great convenience for the thousands in the new residential sections which have developed to the east of the neighborhood served by our main office, 4th Avenue at 22nd Street." This is the fourth office of The Bank for Savings, New York's oldest mutual savings bank, chartered in 1819. Albert A. H. Bliss, Assistant Comptroller of the bank, is Manager of the new office.

* * *

J. H. Fea and E. J. Stanley, representatives of **Lloyds Bank Limited, London,** announce that beginning Oct. 24 their New York office will be at 52 Wall Street, Room 2206.

* * *

At the regular meeting of the board of directors of **The National City Bank of New York** held on Oct. 11, Eldrich C. Campbell and Cedric R. Lane were appointed Assistant Vice-Presidents and Walter Gless was appointed Assistant Cashier. Mr. Campbell and Mr. Lane were formerly Assistant Cashiers located at 42nd Street Branch, and Mr. Gless is at Head Office, 55 Wall Street.

* * *

Arthur C. Roberts and A. Gordon Nelson have been appointed Assistant Cashiers of the **State Bank of Albany** at **Albany, N. Y.,** it was announced on Oct. 5 by President Frederick McDonald. The Albany "Times-Union" reports that Mr. Roberts joined the bank staff in 1941, while Mr. Nelson began employment with the institution in 1933.

* * *

The **Irvington National Bank of Irvington, N. J.,** opened on Oct. 17 as the Irvington branch of the **Fidelity Union Trust Co. of Newark, N. J.** The sale of the bank to the Newark institution was approved by the bank's stockholders on Oct. 14. According to the Newark "Evening News" of that date the vote "announced by Roy A. Hitchings, President of the Irvington institution, was 2,035 shares in favor of the merger, only 35 votes more than the two-thirds required by the National Bank Law. Not voted were 965 shares." The "Evening News" further reported:

"Fidelity Union paid an estimated $340.89 for each of the 3,000 shares of common stock for a total of $1,022,681, plus a tax adjustment being worked out with the Internal Revenue Bureau and redemption of the preferred stock in the Irvington bank for $510,000.

"The largest single block of shares in the Irvington institution which was not voted was 20% held by Julius S. Rippel, Chairman of the Executive Committee of the **National State Bank of Newark,** according to Mr. Hitchings. Among those who attended the meeting and voted were all 12 directors of the Irvington bank who will form a special advisory committee under the new ownership.

"The shareholders voted identically on two resolutions, the first to sell the bank and the second to liquidate the assets. Mr. Hitchings said the first disbursement would be made to stockholders within two weeks and the entire

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Government Housing—Threat To Private Mortgage Lending

By F. RAYMOND PETERSON*
Vice-President, American Bankers Association
Chairman, First National Bank & Trust Co., Paterson, N. J.

ABA Vice-President, commenting on new developments in mortgage credit, stresses growing influence of government in home mortgaging and its power of keeping interest rates low and in encouraging borrowers to make long-term commitments beyond their means. Holds this trend damages fabric of personal responsibility and enterprise, and lays tax on whole economy. Says matter is one of deep concern to private mortgage lenders and is threatening sound standards in mortgage lending.

Savings deposits in banks reflect the thrift habits of millions of people. These deposits have come to us in growing abundance in recent years. The growth of savings accounts in savings and commercial banks throughout the country is impressive and gratifying. Deposits have again reached new highs. In mutual savings banks, they totalled more than $18½ billion at the middle of the year. They increased $550 million during the first half of this year, and are $8 billion more than they were in 1939. Savings accounts represent more than one-third of the total deposits of all banks in the United States. They have doubled since 1939. The total savings of the American people in banks, other savings institutions, life insurance reserves, and United States Savings Bonds exceed $200 billion.

F. R. Peterson

These savings funds represent a tremendously important element in the nation's economy. They are a source of personal and family financial reserves, a reservoir of long term credit, and a wellspring of purchasing power that can help stabilize the swings of the business cycle. To encourage thrift is one of banking's major responsibilities. Whatever we do to further its development adds greatly to the nation's financial strength.

Accompanying the growth in savings deposits this year, there has been a further large increase in the volume of mortgage lending. This is the area of long term credit in which savings banks play a very important part. Total mortgage loans outstanding by all lenders at the end of last year amounted to $52 billion, an increase of $8 billion for the year, and an increase of $22 billion since the war. Mortgage loans by mutual savings banks amounted to 15% of the $52 billion total, and commercial bank and trust company mortgage loans provided another 15% of the total.

The struggle for adequate housing has been a difficult one since the end of the war. It has presented very serious problems for home buyers, builders, and mortgage lenders. There have been scarcities and high cost of labor and building materials. The demand for homes has been without precedent. It has been greatly stimulated by government measures to provide abundant and low-cost housing credit. All these factors combined to raise the prices of new and existing construction far beyond reasonable levels. As a result, many mortgage loans made after the war were based on inflated values, measured by any standard.

New Techniques in Mortgage Credit

Fortunately, a number of new techniques in mortgage credit have been extensively developed in recent years. Among these are amortized principal and constant mortgage portfolio supervision. They provide a remarkably high degree of protection and control and add greatly to mortgage soundness and safety. Delinquencies have risen only very slightly this year. Loans guaranteed by the Veterans Administration or insured by the FHA have thus far shown a remarkably successful record of freedom from foreclosure. Bank mortgage lenders, however, are wise in regarding these guaranties only as protection against excessive loss if a very great decline should occur in real estate values or in general business conditions. The fundamental soundness of mortgage loans is still based on the value of the property behind the loan and the willingness and capacity of the borrower to meet the terms of the loan.

There has been confirmed evidence during the past year that real estate prices have passed their postwar peak. Prices of both higher cost and lower cost homes in many areas have declined. Builders of some large developments have had difficulty in selling new homes and have had to price them more attractively, but construction volume has continued at a high level.

The nation is confronted by a paradox in the housing field. On one hand, there is increasing evidence that the supply of housing is catching up with the immediate demand for it. The pressure of emergency buyers on the real estate market has disappeared. That is one of the main reasons for the downtrend in home prices during the past year although faster construction methods and steadier supplies of building ma-

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*An address by Mr. Peterson at the 47th Annual Convention of the Savings Banks' Association of Connecticut, Whitefield, N. H., Oct. 18, 1949.

Mutual Funds

By HENRY HUNT

A Woman's Story

"I am a woman who had money to invest. I took my time and did plenty of 'window shopping' before I took a dime out of the bank.

"I did not ask my friends what to buy as I didn't think much of free advice. Even when given with the best intentions, it often proves costly.

"I wanted a sound investment paying a good and dependable income to help meet the rise in living costs. I wanted my investment to increase in value and secure profits for me over the years.

"I didn't know one stock or bond from another. But I know a good bond yielding 3% wasn't paying enough for today's high living costs or for the future, if these costs continue to rise.

"I knew I could get a good income from some stocks but realized I was no expert on securities and needed professional advice. I found investment counsel firms don't handle accounts under $50,000. As I was a person of moderate means, I had to look elsewhere.

"I consulted a leading investment dealer in my community and asked him what was the best thing to do. He told me the best way for me to get a dependable income and protect and increase my savings was through Balanced Mutual Funds.

"He showed me how the good bonds and preferred stocks in these Funds would protect my principal in declining markets and the common stocks would give me a better income and a chance for profits, if the stock market should advance. He showed how my savings would be reasonably secure and my income dependable because they were invested in so many different securities."—From "Wellington News."

Texas Fund Organized

"The fastest-growing prodigy in U. S. finance hooked itself to the Southwest's button-popping prosperity recently when a handful of Houstonians announced the organization of the region's first investment trust.

"The founders of the **Texas Fund**, with an idea of their own to add to one shyly started in 1924 by Bostonians, will make all their investments in Southwestern businesses and industries.

"To most Texans, as to most Americans, an open-end investment trust sounds as exciting as a lesson in Sanskrit and is nowhere near as understandable.

"But investment trusts, in the past two decades, have made it possible for small investors to put their cash in the stock market with comparatively small risk and with returns averaging between 4% and 5%. These trust have made investors of many a man who otherwise would have had no truck with Wall Street.

"With an original capital of $150,000, the **Texas Fund** was cleared by the SEC and is now in operation.

"Said Dudley Crawford Sharp, President of the **Texas Fund** and President also of the Mission Manufacturing Company and the Howe-Baker Corporation:

"'We are limiting the investments of the **Texas Fund** to a region which we believe is not through growing. The purpose of the fund is to provide a medium through which investors—small as well as large—can get the benefits of diversified security investments in companies doing business in the Southwest.'

"What he meant was that anyone who makes enough money to have a savings account in a bank can now invest in his own region with a return of about four times as much interest as he gets at a bank and with little more risk.

"**The Texas Fund** will go on the market at about $11 a share.'—Quoted from The Houston "Post"

Europe Looks at the United States

"Everywhere in Europe—in England, France, Holland, Belgium, Switzerland, Italy—our senior partner, just returned from a 10-week trip abroad, found the greatest of interest in the United States and in American ideas, trend and developments. In every country people expressed the keenest interest in our stock market—'If only we had the dollars we certainly would buy American stocks'.—In London, Parish, Zurich, and all through the Continent American stocks were considered on the bargain counter. The contrast to the hesitant, doubtful, uncertain attitude here was striking.

"And it was more than a case of the next field looking greener. European financiers are not given to emotional and wishful thinking. The canny Scot, the objective British, the deliberate Dutch, the cautious Swiss have survived centuries of major political, economic and financial upheavals by maintaining a truly objective approach to their investments. Europeans generally appreciate that, by contrast with their own hard experience of recent years, the American economy is fundamentally strong and healthy in spite of all the obvious short-comings and deficiencies that anyone can cite.

"Typical is the current position of the American-Canada Trust Fund of Zurich, the largest diversified European investment company operating exclusively in American common stocks today. The astute Swiss bankers who run this $40 million Fund now have 90% of its assets invested in high-grade U. S. equities, about 6% in Canadian stocks and only 4% in cash. This is the heaviest invested position the Fund has taken since its organization in 1938—compares with a cash position of 12½% at the end of 1948—one of 18% two years ago.

"Our recent visit to America-Canada Trust Fund revealed the truly remarkable fact that in its 12-year existence, during which period it has grown to more than $40 million, there has never been one redemption.

"This is striking testimony of the solid growth of the investment company idea among thrifty Swiss investors."—from **Arthur Wiesenberger's** "Investment Company News."

Group Securities Comments

"The basic reason for strength in stock prices is the persistence of the high rate of return which leading stocks provide," according to the October Investment Report of **Group Securities, Inc.** "**The return from good stocks is presently at record levels—2½ to 3 times the yield from high-grade bonds. It can be explained only by the widespread expectation, that has now persisted for over three years, that present dividend rates cannot be maintained. Yet the evidence continues to mount that the largest portion of the postwar drop in earnings has already occurred, that any further decline will be slow and of modest amount, and that, in the main, present dividend rates will prove to be conservative and will persist for a considerable period of time.**

"'Business is improving,' the Group Report continues, 'and there is growing evidence that the adjustment of prices and of inventories is reaching its conclusion. We do not believe that the coal and steel strikes will seriously upset this favorable situation.'"

$43,365,000 New York State Housing Bds. Sold

A group headed by The National City Bank of New York purchased on Oct. 18 $43,365,000 State of New York housing bonds due Nov. 1, 1951 to 1999, inclusive. The group's bid was 100.0769 for a combination of 4s, 2¼s, 2s, 1¾s, and 1¼s, a net interest cost of 1.8950%. Re-offering of the bonds was made at prices to yield from 0.55% to 2.20%, according to maturity.

The bonds are being issued to provide moneys out of which to make loans to cities, towns, villages and authorities for and in aid of low-rent housing for persons of low income, or for the clearance, replanning, reconstruction and rehabilitation of substandard and insanitary areas and for recreational and other facilities. They will be general obligations of the state which will pledge its full faith and credit to the payment of principal and interest on the bonds.

Other participants included Lehman Brothers; First National Bank, New York; Bankers Trust Company; J. P. Morgan & Co. Incorporated; Harriman Ripley & Co., Incorporated; The First Boston Corporation; Smith, Barney & Co.; Halsey, Stuart & Co. Inc.; Phelps, Fenn & Co.; Lazard Freres & Co.; The First National Bank of Chicago; Glore, Forgan & Co.; Goldman, Sachs & Co.; Union Securities Corporation; Drexel & Co.; and Continental Illinois National Bank & Trust Co.

Paine, Webber Adds Two

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Morris S. Rich and Samuel Welsh are now with Paine, Webber, Jackson & Curtis, 626 South Spring Street. Mr. Welsh was formerly with Buckley Securities Corporation.

Bickerstaff With Tomlin

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — J. Rankin Bickerstaff is now representing Samuel S. Tomlin. Mr. Bickerstaff was formerly with Hancock, Blackstock & Co.

Casebolt With Bacon Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Bernard Casebolt has become affiliated with Bacon & Co., 256 Montgomery Street, members of the San Francisco Stock Exchange. Mr. Casebolt was formerly with Davies & Mejia and Wilson, Johnson & Higgins.

With Priester & Co.

(Special to THE FINANCIAL CHRONICLE)

DAVENPORT, IOWA.—Robert A. Priester is with Priester & Co., Davenport Bank Building.

Open Letter to Congress on Mutual Funds Advertising

By EMMETT CORRIGAN

Chairman of the Board, Albert Frank-Guenther Law, Inc.

Advertising executive urges amendment to Securities Act to exempt from "tombstone" restrictions advertising of mutual investment funds when 90% or more of their holdings are in securities, which are themselves exempt from such restrictions.

Remarkable as has been the growth of mutual investment companies during the past few years—an evidence of the investment need met by these companies—the fullest potentialities of the funds hardly can be realized until the extraordinary restrictions imposed on the advertising of the industry are lifted or modified. The restrictions are contained in the Securities Act of 1933 as amended.

Emmett Corrigan

For those unacquainted with the advertising restrictions on the investment funds the facts are these:

Mutual fund sponsors are forbidden to describe their funds in their newspaper, magazine or radio advertising or indeed even to identify themselves beyond stating their names, extending an invitation to the potential purchasers to send for the prospectus which offers the securities for sale, and giving (when feasible, which is seldom) the price of the securities.

As an advertising man I am constantly amazed at the number of people in the financial and advertising fields who are unfamiliar with this prohibition.

What should be done to remedy this situation? Simply this: Amend (it would require only a very brief paragraph) the Securities Act to exempt mutual funds from any advertising restrictions under the Act provided that, say, 90% of the invested funds of the mutual company in question are in securities which themselves are exempt from such restrictions under the Act.

The net effect of such an amendment, so far as advertising is concerned, would be to place the shares of mutual funds in the same category as other so-called "exempt" securities which are traded, whether on the exchanges or over-the-counter. A dealer is free to advertise the merits of the securities of these other companies, be they of industrial, railroad, public utility or commercial enterprises, and to state the reasons he recommends the securities. As long as descriptions of the securities are factually correct—in other words, are not deceptive in intent and do not conceal the dealer's position (if any) in the securities —the dealer is free to tell his story.

Similar advertising freedom should be extended to the mutual funds. That this would be a service to the investing public, no one familiar with the record of the funds under the Investment Company Act of 1940 can well deny. As previously indicated, the strongest evidence that the funds do perform a needed and valuable service to the public is their record of growth. It is this growth, achieved in spite of the "muffling" of their advertising, that testifies most directly and convincingly to the need for the reclassification of the funds in the eyes of the Federal law.

As everyone in contact with the industry knows, more important recognition has been accorded mutual funds in the past year than in all the years since enactment of the Investment Company Act of 1940. Mutual funds are now being featured editorially in our newspapers and magazines as a great force for prudently channeling the scattered savings of the "middle millions" into stocks and bonds of American industrial enterprise, with all the attendant advantages to the nation's economic and social well-being. The entrance of many stock exchange houses into the retail distribution of the funds also has been a much commented-on sign of the coming-of-age of the investment company industry. Other indications of the widespread interest in mutual funds are the recent formation of a Mutual Fund Institute by a group of fund underwriters and the large attendance at a mutual fund conference, the first of its type, held a short time ago in New York City by 300 representatives of the industry from some 30 states.

What these developments add up to is this: a general recognition that mutual funds have been able to forge ahead even at a time when interest and activity in virtually every other phase of the securities business have been at ebb tide. This growth constitutes an impressive testimonial on the part of the American investing public to the vitality and usefulness of the mutual fund concept—for it has been accomplished in the face of the fact that mutual funds are not allowed, under existing legislation to tell their own story in advertising.

The purpose or ideal behind the Securities Act, as it related to advertising of securities was, of course, that advertising about new issues should be limited to simple announcements and that in determining whether or not he should buy the securities the potential purchaser should be directed to the prospectus, which would reveal all significant facts, good and bad, about the company in question.

And there is the rub—because, since funds must perforce issue new securities and liquidate them as they are bought and sold by investors, the shares sold in mutual companies are classified as "new issues."

This works a severe hardship on the mutual funds—an unjust one —for in common sense and fact their stocks are not new issues. Enactment of the amendment to the Securities Act, proposed above, would relieve the funds of this unfair burden.

Mutual funds are no longer on trial; they have proved their true worth to hundreds of thousands of investors. One company this year celebrated its 25th anniversary and many others are almost as well established, and several funds are sponsored by investment management organizations of long standing, one of which was established as far back as 1894. Yet great as the growth of these funds has been, they still hold only a tiny portion of American savings. They could and should handle a larger share of the non-professional investor's money than they do at present, especially of the investor who may never in his life have owned a security but who should, and through diversification and professional management can, participate in the American system of corporate enterprise.

Coming Rebirth of the Incentive System

By NATHANIEL STONE CHADWICK

Vice-President, National Securities & Research Corporation

After reviewing domestic and foreign developments, Mr. Chadwick contends world's commerce is on verge of being rehabilitated and there will be rebirth of incentive system. Looks for further inflation to be reflected in higher prices of common stocks rather than higher commodity prices.

That a large measure of business confidence has been restored is best indicated by the rise of common stock prices since the middle of June. This rise has occurred in the face of a number of important economic events, such as a sharp drop in production, a lower employment level, and a very low level of new orders received in the month of July, 1949. Furthermore, the continued restricted coal output finally climaxed in the present strike. But this, together with the steel strike and the threatened automobile strikes as well as other quite widely spread labor trouble, has not interfered noticeably with the rise in stock prices.

N. S. Chadwick

On the other hand, many things have happened in the recent past that could fundamentally reverse the widespread pessimism that has existed not only domestically but also throughout the world.

Foreign

Insofar as international affairs are concerned, it is well to recall that the Berlin blockade by the Russians was a veritable keg of dynamite that could easily and quickly have caused armed conflict. This blockade by the Russians no longer exists and the imminence of war with Russia, one of our principal worries during the latter part of 1948 and the early part of this year, while not entirely dissolved, has faded into the background, and is no longer considered a pressing peril.

The psychological relaxation coincident with the great reduction of this peril has enabled the capitalistic world to take up such important matters as devaluation of foreign currencies to a more realistic figure. The first of these countries to devalue was Italy, and within the last two weeks there has occurred in that country what may well be a forerunner of real currency stabilization. Italy bought $396 million of gold (127 tons) from the U. S. Government at a price of $35 per ounce, although the black market price for gold in Italy at that time was $48 per ounce. This purchase from the U. S. Government, together with $100 million of Italian earmarked gold, is to be used as a gold reserve securing the Italian currency, and will be equivalent to a 25% reserve behind all Italian currency outstanding.

This proportion is in line with the old gold standard reserve ratios. This Italian operation is probably a forerunner of gold being sold by the United States to other countries that have devalued and reached enough monetary stability to enable them to acquire gold and establish a reserve behind their currencies. Such reserves are and have been the crying need of the monetary world since the world financial panic of 1929-32. Sound currencies with the basic monetary metal behind them will be a first step toward a return to normal international commerce. The return of normal international commerce will be a tremendous boon to this country. The U. S. will be the chief supplier of innumerable products, which we have the know-how to make better than others.

Just how much gold will be distributed in this manner from the Fort Knox reserve is beyond estimation, but the size of such export should be large. If such large exports occur, the measure of the American dollar, combined with the greatly increased debt of this country, will raise the question of domestic dollar devaluation. The extent of such domestic dollar devaluation, if it occurs, is impossible to project. However, the expectation that such dollar devaluation may occur will arise.

In addition, if money is invested on a productive basis in the backward areas of the world (Mr. Truman's Point 4) it would better distribute world population as the people of crowded countries would move into these developing areas, bringing about a better world trade condition. The development of these new resources would make a richer world to which the United States could sell its products and receive large income benefits therefrom. Moreover, such an event through world-wide purchases for these areas would put more dollars of buying power into the countries having weaker currencies.

Domestic

Domestically, if the U. S. official price of gold is increased, it will cause further increase in the cost of living and commensurately dollar wages, dollar salaries and dollar sales will rise. Those with accumulated capital invested in fixed income investments will suffer again as they have in such past changes. On the other hand, since dollar sales and dollar income will rise with a consequent price rise, stock prices will probably rise as they have since March 4, 1933 when the Dow-Jones Average was at the 55 level. Let us recall that after the 1933-37 rise the next low level of the Dow-Jones Industrial Average was 98 in 1938 and that after the 1942-46 rise the next low level of the Dow-Jones Average to date has been 161, indicating the approximate doubling (if stock dividends and rights are allowed for) in each of these two inflationary periods, (1933 to 1938), (1942 to 1949).

Political Climate of Business

In February, 1946 the government inaugurated a program of reducing government debt and followed a policy which existed until June 1949 of (1) restraint on speculation in the stock market through higher margins; (2) increasing bank reserve require-

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Recent and prospective dividend changes of fire insurance companies continue to occupy the attention of investors interested in insurance shares.

Normally the year-end is the time when most companies review their operations and make changes in payments reflecting operations of the year as well as the outlook for the coming 12 months. In view of results for the current period and the favorable outlook for 1950 in the fire insurance industry, numerous dividend increases and extra payments are expected in the coming months.

Two weeks ago three of the large companies, Hartford Fire, Fire Association, and Insurance Company of North America, which have declared stock dividends so far were discussed briefly. Since that time another of the major units in the industry has acted similarly.

Stockholders of the Great American Insurance Company are scheduled to meet at a special meeting on Nov. 29 to vote upon the proposal of the board of directors to increase the capital of the company to $10,000,000. If the proposal is approved, a stock dividend of 25% will be declared and paid.

For over 12 years Great American has been paying regular annual dividends of $1.20 per share. Last January, an extra of 10 cents was paid in addition to the 30-cent quarterly payment.

According to an announcement by the management, it is anticipated that after the payment of the 25% in stock, the regular $1.20 annual dividend will be continued. However, the extra dividend of 10 cents would not be repeated.

This policy of paying stock dividends and then maintaining the same annual cash payment on the increased number of shares outstanding, has certain advantages from both the standpoint of the company and the stockholders.

In the first place, it is a means of giving the stockholders a tangible participation in the substantial increase in capital and surplus which has occurred over the past ten years. During the period, dividends have been restricted because of the need of reserve funds to carry the larger volume of premium underwritings. Capital positions have been under pressure and although investment income has continued to increase, cash dividends have in general been maintained at conservative levels.

The stock dividend is, in a measure, a recognition of this condition and by continuing to disburse the same annual cash payment on the additional shares the shareholders are given a larger return on their investment.

At the same time, the increase in the premium volume of the company is recognized by augmenting the capital. With the change in the price level over the past two years, it becomes clear that a permanently higher level of insurance business will be available.

For these reasons, it is logical to expect that other fire insurance companies may use the stock dividend method of increasing the stockholder's return on his investment.

Regardless of this consideration, however, it is almost certain that the stockholders of insurance companies can look forward to more liberal dividend treatment in the future.

Over the next four months many companies will meet for year-end dividend action and hold annual stockholders' meetings. This will present an opportunity to increase cash payments and extras in some cases and in others for shareholders to consider increases in capital stock.

The most recent increase in a cash distribution was that announced earlier this week by Security Insurance of New Haven. An extra of 20 cents a share in addition to the regular quarterly payment of 35 cents was declared payable Nov. 1, 1949. This brings total payments for the year to $1.60 a share as against $1.40 for 1948.

Continuing the list of two weeks ago, several other companies which are scheduled for dividend action within the next several months are presented below.

	Current Annual Dividend	1948 Investment Income	Percentage Paid Out	Approximate Next Dividend Meeting
Aetna Fire	$2.00	$3.42	58.5%	Dec. 12
American (Newark)	0.80	1.27	63.0	Feb. 9
Boston Insurance	2.40	3.19	75.2	Dec. 13
Continental Insurance	2.20	4.13	53.3	Dec. 15
Fidelity-Phenix	2.40	4.64	51.7	Dec. 15
Fireman's Fund	2.60	4.17	62.4	Dec. 19
Hanover Fire	1.40	2.28	61.4	Dec. 7
Home Insurance	1.40	2.15	65.1	Dec. 12
National Fire	2.00	3.77	53.1	Nov. 14
National Union	1.40	2.37	59.1	Nov. 29
New Hampshire	2.00	3.23	61.9	Nov. 23
New York Fire	0.80	1.79	44.7	Jan. 19

Karl H. Behr Dead

Karl H. Behr, Vice-President of Dillon, Read & Co., New York City, died at his home at the age of 64.

S. K. Butterworth Is In Bache Metal Dept.

Spencer K. Butterworth has joined the metal department of Bache & Co., 36 Wall Street, New York City, members of the New York Stock Exchange, it is announced. Mr. Butterworth has been actively engaged in the metal business for the past 30 years.

Prior to World War II, he was the sole proprietor of S. K. Butterworth Company of New York, specializing in non-ferrous metals. During the war, Mr. Butterworth was Deputy Director of the Tin, Lead and Zinc Division of the War Production Board and, subsequently, he held the same position in the Civilian Production Administration.

Will Insurance Shares Continue As Prime Investments?

By WALLACE FALVEY*

President, Massachusetts Bonding and Insurance Co.

Prominent insurance executive, though favoring conservatism in dividend policies of insurance companies, sees need for larger dividends if these securities are to become more popular investments. Pleads for more liberal regulation of insurance rates and decries rapid trend toward government insurance as not giving private companies opportunity to prove their availability as underwriters. Deplores police laxity in permitting reckless driving.

Insurance shares investment-wise at the moment are not as popular as I would like to see them. We maintain a very unique position in management, as we voluntarily ignore the profits of our own business in dealing with our stockholders, in disregarding the earnings realized from the underwriting of our insurance risks. Our dividends by and large are related solely to the income we derive from our investments, as the profit from our business proper, this is, our underwriting profit, is maintained to finance the future growth of the companies and to build up a backlog of greater equity for our shareholders and larger surpluses for our policyholders' protection. Yields, therefore, from insurance shares are ordinarily lower than returns from investment trusts or from industry. I am wondering if the time has not arrived when successfully operated companies should give a greater share of their income from interest, dividends, and rents to the owners of the companies. I would be the last one to advocate a swerve away from conservatism in our dividend-paying policies, but evidence is at hand indicating that some of our owners are becoming restless for a greater share in the income we receive from our investment portfolios.

The best paying stocks still tend to sell at the highest levels, and naturally the more money we have available and actually use for dividends the wider will be the number of investors attracted to our business. Ownership of insurance stocks has been particularly strong among fiduciaries, such as universities, religious and charitable institutions, and foundations of all kinds. These fiduciaries have a very substantial stake in our business, and we are happy about it. But they, like everyone else, have been pressed for income in order to meet their higher costs, and they are hopeful that insurance will be able to increase dividends as industry has done during good years. This consideration is another one for the regulatory authorities to consider in their rate-approving deliberations so that we will not run into an era of impatience and demands from without. We also would like to see a wider distribution of our shares in the hands of more people to offset the present apathy of public and charitable institutions toward insurance equities.

Insurance Stocks As Prime Investments

I have been talking recently with the managers of several large trusts and foundations and I have also talked with trust officers of several of our leading banks concerning the future of insurance stocks as prime investments. Certain things have been told to me which led me to believe the stocks of some of our most highly respected fire and casualty companies might lose favor as the prime investments they have been for many years. In trying to find a reason for this I was driven to the unpleasant conclusion that it is caused by the over-conservative policy of management with respect to the payment of dividends.

Coming from New England, and particularly from Boston, which is the Hub of New England, and the very seat of conservatism, backed up by a long and excellent record of financial enterprise, this is a broad statement for me to make. I have great veneration for the word "conservatism"— it is a tradition that is dinned into the ears of every New Englander from childhood. However, I must admit that there have been times in the last year or two when I have felt some of us in the insurance business may have been in the process of making a hackneyed word out of "conservatism" and I have an unavoidable impression that "conservatism" frequently has been used as a cloak to conceal an unwillingness to pay out a fair share of our profits to the owners of our business. One of our colleagues who is head of another insurance association recently termed shareholders as "the forgotten men."

I realize quite well that someone may point at my own company, since we are paying dividends equivalent to about two-thirds of our investment income, but it seems to me the determination of the amount of dividends to be paid should be predicated primarily on two considerations: (1) the amount that can be distributed after providing adequate capital funds for the protection of policyholders, and (2) the amount of investment income available for dividends.

The first obligation to policyholders obviously must be fulfilled. We have taken up the "slack of capacity" during the past two years as a result of the abnormal growth of our business. For the time being it seems that the rate of growth has leveled off but we certainly have reason to believe our business will continue to grow. Such growth may mean we shall come upon another period when numerous companies in our industry may find it necessary to increase capital funds, through the sale of additional stock. Such sales, in turn, must be based upon a continuing good market and popularity for insurance common stocks. We must prepare for this contingency.

Now what is our competition at the moment? As I view it, it comes from another regulated industry. And that industry, gentlemen, is the public utility industry. It is now possible to buy shares of strong public utility companies yielding from 6% to 7% and the marketability, as a rule, of public utilities' shares is far better than that of insurance companies' equities. It is my belief insurance stocks cannot continue for long on their present low-yield basis and still attract the type of venture capital we will need perhaps all too soon.

Government in Insurance

The second topic I would like to touch upon has to do with the extent to which our Federal and State governments have come into the insurance business, and to draw to your attention the question of whether or not we in the fire and casualty business have become sufficiently alert. Let us look at the picture.

First, as to the number of government programs. There are 12 Federal insurance agencies now in operation. There are also twelve kinds of State insurance programs; every State has at least one in operation at the present time; and most States have several, to a total of about 175 in the 48 states.

Second, as to trend. Of the 12 Federal programs, nine have been established since 1932, and of the 175 State programs, more than 100 have appeared since 1932, and five of them in the past five years.

Third, as to the amount of business. It is impossible to state this precisely because of incomplete reporting. So far as Federal insurance is concerned, some programs have been financed by government appropriation, others partly by employee contributions with the government making up the difference when contributions are insufficient to pay losses and expenses. Methods of operation vary widely, as do methods of reporting. There is no question, however, but that enormous sums of money are involved. Annual premium or other income of the Federal programs apparently amounts to more than four billion dollars, and total assets of the various Federal funds amount to over forty billion dollars. Total assets of some of the State funds on which information is available amount to some two billion dollars.

The 1947 statements of the two Federal life insurance programs alone — United States Government Life and National Service Life—show $40 billion of insurance in force and some $8 billion in total ledger assets. The Old Age and Survivors Insurance program shows total receipts of $1,900 million for the fiscal year ending June 30, 1949, and total assets of over $11 billion. Assets of 66 of the 80 State Retirement funds total a billion and a half dollars.

Functions of Government Insurance

The most important consideration, however, is the function of the various Federal and State insurance programs. The Federal programs have three overall functions:

(1) To protect government employees and other groups not coming within State jurisdiction.

(2) To provide special protection in time of war.

(3) To provide greater security to special population groups.

Under the first group are Federal Workmen's Compensation Insurance and Civil Service Retirement and Disability Insurance, established in 1916 and 1920 respectively. Under the second group are the two life insurance programs, established in 1917 and 1940 for veterans of the first and second world wars. Under group three are eight other Federal programs, all of them established between 1933 and 1939 and serving a wide variety of purposes, ranging from insurance on bank deposits and loans to providing old age, unemployment and

(Continued on page 33)

*An address by Mr. Falvey before the joint convention of the International Association of Casualty and Surety Underwriters and the National Association of Casualty and Surety Agents, White Sulphur Springs, W. Va., Sept. 26, 1949.

Boston Merchant Optimistic on Business Trend

P. A. O'Connell, President of E. T. Slattery Company, in opening Twenty-first Annual Boston Distribution Conference, though warning current economic problems are more serious than ever before, foresees good business outlook through next year.

In an introductory talk opening the 21st Annual Boston Conference on Distribution, P. A. O'Connell, President of E. T. Slattery Company, specialty store in Boston, who is Chairman of the Conference, expressed an optimistic view of the immediate business outlook, despite the current serious economic problems threatening prosperity. Commenting on the situation, Mr. O'Connell remarked:

P. A. O'Connell

"Last year I stated that we were faced with more serious problems than at any time during our 20 years as a going organization but in our 21st year the problems facing us are more serious than ever. The business picture becomes more confused — with strikes, devaluation of currencies, increase in taxes, shorter work-day and shorter work-week, increase in social security taxes, increase in postal rates of $130 million a year, free pensions, insurance, threats of war, inflation, atom bombs, armament demands, is it any wonder that indecision and confusion exist in the minds of business men?

"After a decline in business for a period of eight months the Federal Reserve index of production showed a gain in August of seven points to 169 with 1935-39 as 100. This brought the index to that of last June and only 12% below that of August, 1948.

"Employment increased in August to approximately 60 million, the highest since October, 1948. Then comes the coal strike, the steel strike, throwing out of employment more than one million workers.

"What effect will currency devaluation have upon our economy? The direct effect will not be too great. Our exports are but 6.3% of our total output and our imports are only 3.8%. Some individual industries will be seriously affected, particularly the textile industry. With the reduction of 30% in foreign currencies and a possible lowering of the tariff we will be unable to compete with English textile workers who earn only 30 cents an hour compared with $1.32 an hour for workers in the United States.

"The effect of currency devaluation on prices in general will be mildly deflationary. Raw materials will be mostly affected, such as wool, cotton, rubber, fats and oils.

Woolen goods are being offered at lower prices, so are automobiles from England, France and Italy. Scotch whiskey, they say, is not to be cut. They can sell all they produce at present prices. French wines will be cheaper.

"The Administration is planning to reduce the tariff on about 250 different items, the list of which has not yet been made public, creating competition for American made goods.

"Deficit financing presents another problem upon which the Administration is embarking. Deficits are running at a rate of about $15 billion a year which must be paid for by taxation, destroying confidence in the future.

"Senator Byrd in an article in the August issue of 'The American Magazine' says we are being pushed toward disaster by different kinds of powerful groups. Some are plain greedy and want to get all they can. Everybody else is getting it, they say, why shouldn't we get ours before the money is all gone.

"A great and terrific burden is being placed upon future generations. A child born today inherits a liability on the average of $1,720 as his or her share of the Federal debt, while a child born a generation ago assumed a debt of only $12.

"The Hoover Commission as a result of their exhaustive study found that a saving of $4 billion a year could be made without reduction of any essential services. Little consideration has been given to these recommendations.

"In September expenditures increased about $900 million, and they are still going up.

"Thus far these deficits have been met by the taxpayers of the United States. How much longer can this go on?

"Since World War I the British alone have received in the way of loans and grants a total of $41,800,000,000. As to World War II, the United States has written off $25 billion. This fact is certified by ratification in the House of Commons on Dec. 13, 1945, and House of Lords on Dec. 18, 1945 and approved by the U. S. Congress July 13, 1946. This is exclusive of grants and loans to other countries.

"The demand for goods continues high and and will be further increased by the outpouring of $2,800,000,000 cash to 14,000 000 veterans early in 1950, some of which may be paid by Christmas.

"This fall there will be anywhere from 59,000,000 to 60,000,000 people employed in civilian jobs, reflecting a personal income of more than $100,000,000,000, a reduction in income of about 5% from fall of 1948. That is a lot of money ready for spending and should make for good business.

"Inventories have been adjusted to a buyers' market. Savings are at a new high of $68 billion.

"Selection of merchandise is excellent, quality has greatly improved, prices are lower.

"We are on a much sounder basis than after World War I.

"The consuming public are very critical about their purchases. They insist upon better quality goods at lower prices and refuse to buy until their demands are met.

"Money is plentiful and cheap. I am moderately optimistic not only for the balance of this year but for the first half of 1950. We will probably show a decline of 5 or 6% in dollar sales due in a large measure to lower prices."

Halsey, Stuart Offers Northern Pac. Equips.

A group headed by Halsey, Stuart & Co. Inc. won the award Oct. 14 of $3,975,000 Northern Pacific Ry. equipment trust of 1949, Third Series, 2⅛% serial equipment trust certificates, due $265,000 annually Nov. 1, 1950 to 1964, inclusive. Other members of the offering group were Otis & Co.; L. F. Rothschild & Co.; The Illinois Company; McMaster Hutchinson & Co.; and Wm. E. Pollock & Co. Inc. Issued under the Philadelphia plan, the certificates were reoffered, subject to authorization by the Interstate Commerce Commission, at prices to yield from 1.20% to 2.525%, according to maturity.

Proceeds from the sale of certificates will be used to provide for new standard-gauge railroad equipment, estimated to cost $5,005,100, consisting of 18 Diesel-electric switching locomotives.

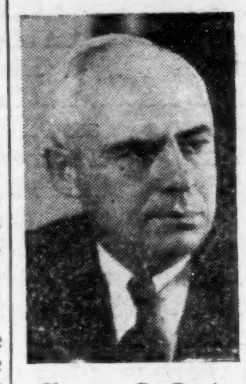
A Plea for a National Monetary Commission

By CHESTER C. DAVIS*

President, Federal Reserve Bank of St. Louis

Contending comprehensive study of our money mechanism by a national monetary commission is long overdue, Federal Reserve Bank executive points out new problems in our monetary system arising in last 40 years. Decries topsy-like growth of agencies to meet new problems and predicts, should inflationary conditions again arise, Federal Reserve will again be in strait-jacket and unable to remedy it. Stresses effect of national debt on bank reserve requirements and opposes further debt increase.

For several reasons I thought I would talk to you about money. Everyone is interested in it, no one knows too much about it, and much of what is generally known probably isn't so. The processes by which money is created and extinguished, its supply expanded or contracted, are not well understood even though the consequences influence the personal and business lives of all of us.



Chester C. Davis

But a more compelling reason, from my standpoint, is the fact that a comprehensive study of our money mechanism by a national monetary commission is long overdue but is not likely to be undertaken as long as the present lack of public interest in such a study persists.

Over 40 years ago, following the money panic of 1907, Congress created a National Monetary Commission from whose study and report came impetus for the Federal Reserve Act of 1913. Since then the dimensions, even the nature of the problems involved in our money economy have changed radically, but there has been no deliberate, studied overhauling of the machinery through which governmental responsibilities with respect to them are administered. A topsy-like growth of agencies has been our answer to new problems as they appeared.

Man for man and in the mass, the members of the legal profession whose national association is meeting in St. Louis this week have unique leverage on public opinion in this country, and I think, you also have real reasons to be actively interested in this subject. Most of you directly or indirectly help business management shape policy; many are concerned with estate management; and where you are active players in a game you are properly interested not only about its rules, but about the umpires and whether their set-up is workable, their authority adequate.

And finally, on that point, above any other class in this country, you make the laws. Two-thirds of the Senators, 54% of the members of the House in the 80th Congress were lawyers. So I speak to you with growing confidence not only as our actual or potential legislators, but as men with real interest in the stability of our money, and its cost, availability and controllability.

Increase in Check Book Money

When the Constitution was adopted, conferring on Congress the power to coin money and regulate the value thereof, no one dreamed of check book money in the modern sense. Today bank deposits account for $140 billion of our astronomical money supply of around $165 billion; currency outside banks, for $25 billion. In the year the Federal Reserve Banks were organized, total bank deposits were less than $20 billion, money in circulation outside banks less than $4 billion. Then, only 35 years ago, the public debt of the United States was less than $1 billion; today it is over $250 billion, it is growing, and it dominates the monetary picture here at home.

Internationally, too, basic economic difficulties show their symptoms in the monetary field. The Washington financial conferences recognize the fact that the British are in serious financial difficulty. In this Britain is not unique. There is a world dollar shortage and the dollar apparently is undervalued in relation to a host of other currencies beside the pound sterling. And whether devaluation will solve the British financial crisis is another question. No legerdemain with money can erase certain stubborn factors—loss of the foreign income which before the war England received from her shipping and her investment abroad, since then liquidated by the war; high production costs; and the slow revival of the coal and textile industries, to mention only a few.

The Money Scene in U. S.

Today I ask you to take a short and inadequate look at the money scene in the United States. The governmental responsibility for managing the money supply has been delegated in large measure to the Federal Reserve System which is the central bank of this nation. Like other central banks it exercises certain natural central banking functions—it influences the volume of credit, provides an elastic currency through the note issue of the Reserve Banks, rediscounts for member banks, holds their reserves, acts as a nationwide clearing house for bank checks, and serves as fiscal agency for the U. S. Treasury and other government agencies. In organization it is not quite like any other central bank in the world. It is peculiarly a United States institution designed to work in this country.

It is a Federal system—a national institution with a regional organization. It is privately owned by the member banks but except for the 6% dividend on their stock fixed by law they do not share in earnings which, after reserves, pass into the U. S. Treasury. Thus, the system is operated in the public interest. The Board of Governors in Washington is appointed by the President and is responsible to the Congress. The 12

(Continued on page 30)

*Address by Mr. Davis before Tax Section and Section of Corporation, Banking and Mercantile Law of the American Bar Association, St. Louis, Mo., Sept. 6, 1949.

Canadian Securities

By WILLIAM J. McKAY

The Annecy Agreement covering tariff reductions arranged by 33 trading nations of the world deals a further vital blow at the British system of preferential tariffs for members of the Commonwealth. Considered in conjunction with the decisions reached during the ABC talks at Washington last September, Canadian exports to British Commonwealth countries are now doubly handicapped. Loss of imperial preferences comes as a further setback to Canadian trade following the Washington agreement on the curtailment of British imports from Canada and this country.

Canada's foreign trade position vis-a-vis the United States thus becomes more important than ever. For this reason it is little surprising that Prime Minister St. Laurent during the course of a recent speech at Troy, N. Y., made an unusually forceful plea for the restoration of a peacetime "Hyde Park Agreement." The Dominion Prime Minister bluntly stated that Canada can not make the most effective contribution to the security of the North American continent without "some arrangement for reciprocal defense purchasing with the United States." Mr. St. Laurent deplored the fact that existing U. S. legislation now stands in the way of the operation of a peacetime "Hyde Park Agreement." As matters now stand the Buy-America Act of 1933 prevents U. S. purchases of arms abroad.

It is now clear that, in view of the increasingly serious nature of Canada's foreign trade problems, vital decisions on long-range economic policies can no longer be postponed. Following the breakdown of the time-honored U. S.-British-Canadian exchange triangle Canada has been deprived of her economic sheet-anchor. It has since been necessary to steer an indeterminate course which has been largely dictated by outside influences. It was not clear whether Canadian interests would best be served by closer relationship with the British Commonwealth or with this country.

Recent events however appear to have decided the direction towards which Canadian economic policies are likely to be oriented. Under present circumstances the Dominion can only turn to its great southern neighbor for the economic and financial cooperation that is essential for the maintenance of Canadian living standards and the full development of the Dominion's enormous wealth of natural resources.

It is to be hoped that this will not lead to blind dependence on external assistance to solve every economic problem that arises. There is no doubt regarding the wisdom of the fullest possible degree of U. S.-Canadian collaboration in all fields but it is also to the general interest that Canada should not be entirely subservient to external influences. Recent history has demonstrated that in the absence of an independent economic policy undue reliance has been placed on external assistance in times of emergency instead of developing strength from within. During the war the "Hyde Park Agreement" removed all Canadian concern with regard to the international balance of payments. Since the war, generous ECA offshore purchases, British liberality concerning Canadian conversion of sterling balances, and U. S.-British accommodation with respect to purchases of Canadian wheat, have all served to smooth the Canadian economic path.

With greater regard to internal measures devised to strengthen and develop the economic fabric, the Dominion would readily become independent of external aid which might not always be forthcoming when required. It is possible also that the time will come when a strong and independent Canadian economy will play a valuable role as a stabilizing factor in world economic affairs.

During the week activity in both the external and internal sections of the market was almost at a standstill and prices were mostly unchanged. The corporate-arbitrage rate was also unchanged at 12½%-11¾%. There was greater animation in the market for free funds which remained strong largely under the influence of continued U. S. buying of Interprovincial Pipe Line debentures. Stocks advanced strongly in earlier sessions to the highest levels reached since 1946. The industries and notably the paper issues were the leading performers but the Western oils and base-metals were also well to the fore. Profit-taking in later sessions caused a subsequent decline with the base-metals further depressed following the repeated lead price-cuts. There was a steady demand for the golds which was stimulated by persistent rumors of an impending rise in the U. S. gold price.

Robert Sully Joins Daniel F. Rice & Co.

Daniel F. Rice and Company, members of the New York Stock Exchange, announce that Robert F. Sully has become associated with them as associate manager of their New York office, 1 Wall Street, New York City. Mr. Sully was formerly a partner in Carreau & Co.

Simon, Strauss & Himme To Be Formed

Simon, Strauss & Himme, members of the New York Stock Exchange, will be formed shortly in New York City. Partners are Burton M. Strauss, Richard L. Simon, member of the Exchange, George Himme, and Lilian B. Leavitt. All were formerly partners in Wm. M. Rosenbaum & Co.

Let's Make It That Way!

"I think the [chief 1950] issue is whether the people want to take up this Fair Deal program and turn this country into a labor-socialist government very much like Great Britain's, in which the government directs the details of all industry, commerce, agriculture and daily lives of the people." — Senator Robert A. Taft.

Robert A. Taft

Continuing, according to the Associated Press, the Ohio Senator said that, far from accepting the President's Fair Deal program, the Democratic Congress pushed most of it aside.

As examples, he mentioned the President's request last January for price-wage controls and for authority to build steel plants. He said this had been dropped. He cited rejection of the Brannan plan for production payments to farmers.

"Then there was his [the President's] plan to repeal the Taft-Hartley Act and restore arbitrary powers and special privileges to the labor union bosses, which was defeated in the Senate and the House," Mr. Taft said.

"Then there was his plan for providing universal compulsory health insurance — that is the socialization, nationalization of medical profession, medical care. That can't even get approval of the majority of the radical Committee on Labor and Public Welfare in the Senate and certainly not in the House."

We should most certainly like to have these things the real issues next year—and made so sharp and clear that there could be no doubt about the meaning of the results.

We hope the Senator will help to make it so.

The Widening Spread Between Yields on Bonds and Stocks

Cleveland Trust Company "Business Bulletin" sees growing disparity between yields, with current spread rarely exceeded in past 50 years.

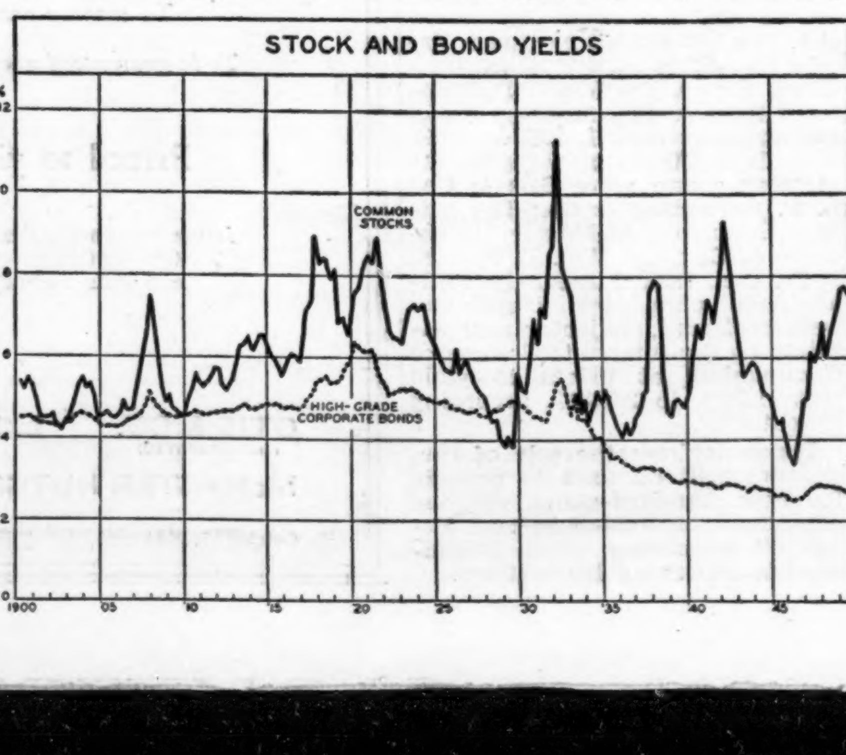
The October issue of the "Business Bulletin" of the Cleveland Trust Co., Cleveland, takes note of the widening spread between yields on bonds and the yields now offered by common stocks.

"In August, common stocks were yielding 2.9 times as much as high-grade corporate bonds," the "Business Bulletin" points out. "During the 50 years 1900-1949 such a ratio was previously reached only twice: first for several months in 1942, and second in June and July of this year.

"To put it another way," continues the "Bulletin," "the average yield on all dividend-paying common stocks traded on the New York Stock Exchange was 7.48% in August, while the average yield on high-grade corporate bonds was only 2.60%. Over the past 50 years the first figure has seldom been exceeded on the high side, while the second has been even less frequently exceeded on the low side.

"The accompanying diagram shows the changes in stock and bond yields beginning with 1900. For stocks, the curve represents the average yield of all common stocks regularly traded in on the New York Stock Exchange. The yield for any given month is obtained by dividing the sum of all the dividends paid per share during the previous 12 months, by the sum of all the prices. The curve for bonds represents the average yield to maturity of high-grade corporate bonds, based on the index of Standard and Poor's Corporation. Both bond and stock yields are plotted for the middle month in each quarter.

"The diagram shows that the prevailing range for common stock yields has been between 4 and 7%. The 50-year average was 5.88%, well below the figure of 7.48 for August of 1949. A year ago the yield was 6.56%, and the rise since then has been caused partly by a decline in the average price of the stocks and partly by a moderate gain in the average dividend paid.



"In the case of high-grade corporate bonds, the 50-year average yield was 4.26% as against the August figure of 2.60. During the first half of the period the yield was consistently above 4%, and occasionally above 5%. With the development of the government's easy-money policies, a long decline in bond yields commenced in the early 1930s and yields of less than 3% have prevailed in the past ten years.

"As related to the business cycle, the trend of common stock yields in 1946-1948 exhibited a notable divergence from past performances. These were the years of the great postwar business boom. Earlier periods of rising business activity were customarily accompanied by advancing stock prices and declining stock yields. However, this time there was no long-sustained rise in the stock market averages, but rather a series of fluctuating price movements confined to a relatively narrow range—despite a steady increase in the amount of dividends paid. This was an important factor in the wide difference now existing between stock and bond yields."

Empire District El. Co. Com. Placed on Market

The First Boston Corp. and G. H. Walker & Co., jointly headed an underwriting group which offered publicly Oct. 17 100,000 additional shares of common stock, $10 par value, of the Empire District Electric Co. The stock was priced at $17.125 per share.

Proceeds of the sale will be applied toward completion of the company's construction program which is expected to cost approximately $11,000,000 during the three-year period ending 1950. The principal item in this program is a new 30,000 kw. steam turbine generating unit at Riverton, Kansas.

Regular quarterly dividends have been paid on the common since the stock was distributed in September, 1944. The June and September dividends in 1949 were paid at an increased rate of 31 cents per share. The company is an operating public utility engaged principally in the manufacture and sale of electricity to 97 communities in southwestern Missouri, southeastern Kansas, northeastern Oklahoma and northwestern Arkansas. During the twelve months ended July 31, 1949, the company reported operating revenues $7,243,715 with net income of $973,083.

Giving effect to this financing, the company will have outstanding $17,196,000 of funded debt; 39,018 shares of 5% cumulative preferred stock, $100 par value; and 450,000 shares of common stock, $10 par value.

Joins Revel Miller Staff

LOS ANGELES, CALIF.—Dean S. Conklin has become associated with Revel Miller & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Conklin, in the past, was with Wyeth, Hass & Co. and Schwabacher & Co.

Ungerleider to Admit

Ungerleider & Co., 41 Broad Street, New York City, will admit Samuel Ungerleider, Jr., to limited partnership in the firm on Nov. 1.

World Bank's Bonds Going Into Strong Hands

By a Staff Correspondent

President Black discloses major holdings by savings banks and insurance companies. Institution studying cooperation on "Point 4." Vice-President Garner discusses "U. S. guarantee-limit."

WASHINGTON, D. C.—Coincident with their market strength, World Bank Bonds are more and more finding their way into the institutional portfolios, it was revealed by President Eugene R. Black in a conference here Oct. 14, with a group of New York financial writers. Savings banks are now the largest holders of the Institution's securities, their holdings in the New York metropolitan area alone totaling $89 million out of $250 million outstanding. Insurance companies take second place in the categories of holders.


Robert L. Garner   Eugene R. Black

It was developed at the conference that some explanation for the persistent demand for the Bank's securities is that its loans outstanding still total far less than the amount of the United States' guarantee—$649 million against $2½ billion.

Replying to the question as to what would be the market effect when the United States subscription of $2½ billion will have been used up, Robert L. Garner, Vice-President, said: "That's what we'd all like to know. The answer largely depends on the state of the world at the time. We are hoping that recovery will have taken place by that time, if not it may be that the limit of the bank's capacity will have been reached. But, with our present rate of lending of two to three hundred millions a year, such limit is quite a way off."

There will be no sales of bonds for at least another year, it was indicated by Mr. Black. "We have $300 million of unused funds on hand now, and we of course will use up this money first before asking for additional funds and paying interest on them."

Questioned as to the Institution's future relationship to President's "Point 4" proposals, both officials envisaged the possibility of major expansion along these lines after the termination of Marshall Aid. The Bank has for some time been working with the United Nations and other specialized agencies to explore future possibilities along these lines, they revealed.

Commenting on the numerous current proposals for merging the Bank with the International Monetary Fund, Mr. Black stated that no purpose would be served by this, in view of the ample amount of loanable moneys now available to the Bank.

Bank Economist Warns of Dollar Devaluation

Dr. Joseph Stagg Lawrence, Vice-President of Empire Trust Company, New York, says it is much easier now for Administration to use expedient of devaluation to meet opposition of critics of fiscal policy than in 1933.

In the Oct. 15 issue of the "Empire Trust Letter," published by the Empire Trust Company of New York City, Dr. Joseph Stagg Lawrence, its Vice-President and economist, in discussing the aftermath of British currency devaluation, concludes that in view of heavy spending by the Truman Administration along with other developments there is grave possibility that the dollar will be devalued also.

Jos. Stagg Lawrence

"The logic of events pushing this government toward devaluation," Dr. Lawrence states, "is clear and, politically, impressive. An important election looms. Devaluation by 27 other countries will change the competitive position of American products. Some unemployment due to this cause is unavoidable. It will occur at a time when necessary postwar adjustments are leading to lower levels of production and fewer jobs. The government has already gone into the red to halt a rise in unemployment during the spring and summer which is hardly visible to the naked eye. It has done this at a time when business generally is still operating at boom levels.

"It will be much easier now to embrace the economically unorthodox but politically innocuous expedient of devaluation than it was in 1933. The provocations to such action need be infinitely less urgent.

"A rise in the price of gold, producing a substantial appreciation in the dollar value of the nation's gold stocks, will provide an answer to opposition critics of fiscal policy. Such appreciation in a conspicuous national asset may be used by artful political propaganda as an offset to the increase in the public debt now taking place.

"Such a trick, however clever it may seem to its authors, however plausible to a financially illiterate public, will be a serious blow to the cause of honest money. The American economy does not need the weasel expedient of a deliberate mark-up in the price of gold. If gold is undervalued, let a free market discover the proper relation between the yellow metal and our paper currency. If foreign competition is unfair, presumably because of exchange manipulation, let the trade balance tell the story.

"As long as the government hoards all the gold and prohibits general ownership and free trade in the metal, it will be tempted from time to time to write up this value, to credit itself with this 'appreciation' and continue blithely down the road of inflation and successive devaluations. To say that this is one of the possible consequences of the English action is to narrow unduly the cause. The real cause is that propensity for public deception and reverse corruption no less marked in this country than in England.

"In the event that unemployment and pressure from adversely affected industries become factors of political importance in the future, the government may reverse its policies on free trade and tariffs. The hands of the clock will then have completed their circuit."

Railroad Securities

Northern Pacific common, which has been a notably stodgy market performer for the last couple of years, has been attracting considerably more speculative interest in recent weeks. In part this renewed activity may be traced to rekindled hopes of important oil profits. The company still holds a large amount of acreage from its original land grants and has retained mineral rights on additional acreage that has been sold over the years. It is impossible to say just how much in dollars and cents this will eventually mean to the company but apparently the prospects are promising. At least it is known that there is a considerable amount of oil in parts of the territory involved.

Regardless of the oil prospects, many analysts have long considered the stock as one of the soundest and most attractive of the lower priced rails. It is this wide approval of the company and optimism as to its prospects that have made the desultory action of the stock over the past few years so surprising and so disappointing. Long term students of railroad securities are convinced, however, that ultimately the intrinsic value of the stock must inevitably be reflected in market performance. It may be that oil developments will supply the necessary fillip that has been missing for so long.

Northern Pacific has not done such an outstanding debt job as has its sister road, the Great Northern. One factor was that the company was entirely free from any maturity problems. Thus it was not under as much pressure as many other roads in this respect. Under such conditions, and with indicated earning power sufficient to support the debt charges comfortably, the management was more inclined to utilize its earnings to improve the property, acquire new equipment, etc. Even at that it was able, with the help of one refunding operation, to cut its fixed charges from over $15 millions at the start to the present decade to around $10.3 millions at the present time, a really significant reduction.

Over the past 10 years earnings on the stock have averaged $4.48 a share. During that period they ranged from a low of just a few cents in 1939, when charges were materially higher than they now are, to a high of $10.29 in 1943. Last year the earnings amounted to $4.97 a share. These figures do not, however, give a true picture of the potential earning power under the existing conditions. They do not reflect the undistributed profits of wholly owned and jointly owned subsidiaries.

Northern Pacific and Great Northern own, in equal shares, virtually all of the stock of the sound and highly profitable Chicago, Burlington & Quincy. Over the past 10 years the Burlington paid out an average of less than one-third of its earnings in dividends. Northern Pacific's share of the undistributed earnings of Burlington for the 10 years 1939-1948, inclusive, were equivalent to an average of some $2.70 a share per annum on the outstanding Northern Pacific stock.

Also, Great Northern and Northern Pacific own all of the non-equipment bonds and all of the stock of Spokane, Portland & Seattle. Despite good average earnings the latter has paid interest to the parent companies only spasmodically and no dividends have been paid on the common for many years. Finally, the wholly owned Northwestern Improvement Company, which was such a bulwalk during the depression years, has paid a dividend in only one year (1945) in the past eight years.

The company's gross revenues have held up well so far this year. Maintenance outlays have been very heavy, however, and the transportation ratio has been higher than that of a year earlier. As a result, net income for the eight months through August dropped to $1,635,000 compared with $4,222,000 realized a year earlier. Final results for the year will naturally be importantly influenced by the amount of non-operating income brought in. This makes it difficult to judge the probable results for the full year. It appears logical, however, to look for at least between $3.00 and $3.50. On this basis a duplication of the $1.50 dividend declared last December, payable Feb. 1, 1949, appears likely. Since resumption of dividends with a payment of $1.00 in 1943 the company has followed a policy of making only one distribution a year.

Harriman Ripley Co. Elects A. S. Kissack

Harriman Ripley & Co., Inc., 63 Wall Street, New York City, announces that Alfred S. Kissack has been elected Secretary of that company to succeed Harry C. Coles, Jr., who has resigned to accept a position as Treasurer of The Torison Balance Co.

Alfred S. Kissack

Mr. Kissack attended Washington University, St. Louis, Mo., and joined the National City Company in 1928, becoming a member of the staff of Harriman Ripley & Co., Inc., in January, 1937. Since March, 1947, he has served as Assistant Secretary and Director of Personnel.

Halsey, Stuart Group Offers Erie Equips.

Halsey, Stuart & Co. Inc. and associates on Oct. 11 were awarded $4,300,000 Erie RR. 1⅞% serial equipment trust certificates, due $430,000 annually Oct. 15, 1950 to 1959, inclusive. The certificates, issued under the Philadelphia plan, were reoffered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.20% to 2.20%, according to maturity. Associated in the offering were R. W. Pressprich & Co.; A. G. Becker & Co., Inc.; Otis & Co.; L. F. Rothschild & Co.; First of Michigan Corp.; Freeman & Co.; Wm. E. Pollock & Co. Inc.; McMaster Hutchinson & Co.; and Mullaney, Wells & Co.

The certificates will be issued to provide for new standard-gauge railroad equipment, estimated to cost $5,390,033, consisting of 28 Diesel locomotives and 30 steel baggage cars.

Britain's Declining Gold Reserve

By PAUL EINZIG

Commenting on recent decline in Britain's gold and dollar reserves, Dr. Einzig contends devaluations effect may be beneficial because it put an end to gold losses arising from circumventing exchange controls. Looks, however, for higher wages and prices to offset advantages of devaluation, and reports feeling is that devaluation is no solution to Britain's difficulties.

LONDON, ENG.—The announcement of the quarterly gold figures confirmed pessimistic rumors about the extent of the gold drain that were in circulation in August and early September. It is true, the actual loss during the third quarter of this year was $220,000,000 only, compared with $260,000,000 during the second quarter. But on Sept. 18 the loss amounted to $300,000,000, and had it not been for the devaluation it would have continued to augment during the last 12 days of September. As it was, Britain recovered some $80,000,000 of gold following on the devaluation. This recovery must be attributed almost exclusively to the covering of short positions in sterling. Those importers of British goods and other debtors in sterling who deferred the payment of their liabilities in the hope of being able to pay in cheaper sterling have now paid their debts. Possibly the amount involved was bigger than the increase of the gold reserve between Sept. 18 and Oct. 1, for during that period the gold drain due to adverse trade balance probably continued unabated. There is bound to be a time lag before the devaluation can produce its effect on imports and exports, and an even longer time lag before this effect influences the volume of payments for imports and exports.

Dr. Paul Einzig

Possibly deferred sterling payments may continue to be made for some time, and the dollar gains arising from this source may go some way towards offsetting the losses arising from the adverse trade balance of the United Kingdom and of the Sterling Area in relation to the Dollar Area.

Another favorable effect of the devaluation is the decline of gold losses through various methods of circumventing the exchange control. The extent of such losses has been very considerable; they were for the most part due to the possibility of buying sterling in unofficial markets at rates much below the official rate. As a result of the acquisition of cheap sterling it was profitable for continental importers of Australian wool, of Siamese importers of Malaya rubber, etc., to re-export their goods to the United States, and the dollars thus earned were a net loss to Britain. One man's poison is, however, another man's meat. The dollars thus lost by Britain were the gains of other countries in need of dollars. The merchants engaged in such transactions, at the same time as making substantial profits rendered useful services to their respective governments, even though the latter always righteously disclaimed any knowledge of the transactions which brought them in substantial amounts of dollars.

Now that no profit can be made any longer through the acquisition of sterling under the official rate, Britain's gain through the stoppage of the loophole will be the loss of the continental and other governments concerned. The question is, will these governments accept their loss without a fight? They can no longer depend on their merchants to earn dollars for them at Britain's expense, because in most lines this has ceased to be profitable. But there is nothing to prevent them from subsidizing the re-export transactions, in order to continue to benefit by this source of dollars. Even so, the gold drain through such abuses is bound to be less than it was before devaluation.

The main factor determining the extent of the gold drain is, of course, the trade balance. In this respect it seems reasonable to expect an improvement, but its extent is anybody's guess. It seems probable that in spite of the devaluation the dollar deficit will continue to be substantial. In all probability the last quarter of the year will disclose a further gold loss, even though its amount is likely to be smaller than in the last two quarters.

There can be no question of a reversal of the gold drain such as Britain experienced after the suspension of the gold standard in 1931. It is well to emphasize this, for many people might be inclined to infer from the gain of $80,000,000 within 12 days after the devaluation that the history of 1931 would repeat itself. The reason why after 1931 Britain gained so much gold, considerably more than what she lost before the suspension of the gold standard, was that there was a flight to the pound, owing to distrust in other currencies, and to confidence in the fundamental improvement of Britain's economic position. This time there may be some slight increase of foreign-owned sterling balances, but nothing like the increase experienced in the '30's. Possibly there may be devaluation scares in countries which have not followed Britain's example, or which have not devalued sufficiently. Even so, it would be idle to expect an inflow of large amounts of "flight" money. This is all to the good, for, even though such an inflow would result in a temporary increase of the gold reserve, such gain would soon be lost. While it lasted it would generate a false feeling of security, which would be detrimental to the government's effort to achieve an increase of productivity and to induce the country to accept sacrifices.

Even in the absence of an influx of flight money, it will be very difficult, if not impossible, for the Government to make the British industrial workmen realize the gravity of the situation. The Chancellor's appeal that there should be no demands for higher wages in connection with the increase of the cost of living through the devaluation seems to have met with little response. Indeed, the new formula put forward by various unions as an alternative to the adjustment of wages to the cost of living is that the lowest-paid workers must be protected from the effects of a devaluation by fixing a minimum of £5 per week. Although this would not affect the majority of wage-earners, those who would be affected would benefit by it to an extent far in excess of the probable increase in the cost of living. Few people expect the cost of living to increase by more than 10%. A minimum wage level of £5 would bring to many hundreds of thousands of workers increases of anything up to 25%, or even more. Although these underpaid workers deserve every sympathy, the satisfaction of their claims at the present stage would wipe out a considerable part of the advantage gained through devaluation.

It is because such measures are considered that there is a widespread feeling that devaluation has not brought Britain much nearer the solution of her economic difficulties. And it is largely because of this feeling that the flight to the pound experienced in the '30's is not likely to repeat itself.

Reports Rumor of Rise in Gold Price

In prepared statement, Rep. John Taber from New York hints Truman Administration has devaluation in view to conceal its spending plans. Dr. Spahr asks Congress Banking and Currency Committee to call Secretaries Snyder and Martin for explanation.

Rep. John Taber (R.-N.Y.), on Oct. 14, issued a prepared statement in which he revealed that there was a rumor that the Truman Administration was "working on a scheme to increase the price of gold and devalue the dollar." This statement was made by Mr. Taber

John Taber

Dr. Walter E. Spahr

in an attack on Truman's spending program.

"The Truman program," he said, "calls for onerous increases in spending. It calls for so many more expenditures that our deficit for the current fiscal year is bound to be $5,500,000,000."

Mr. Taber made reference to President Truman's recent comment that he hopes to raise the average income of U. S. families from $1,350 a family to $3,500 a family. "The objective of that increase is very subtly concealed," said the Republican Congressman. "The Truman program calls for enormous increases in spending. It calls for so many more expenditures that our deficit for the current fiscal year is bound to be $5,500 million. In order to help create the inflation, increase the poor man's taxes, and reduce his purchasing power, I understand, the Truman Administration is working on a scheme to increase the price of gold and devalue the dollar. This will make us suckers for the foreign gold producers."

Immediately following the Taber statement, the following telegram was sent to the members of the House and Senate Banking and Currency Committees by Walter E. Spahr, Executive Vice-President of the Economists' National Committee on Monetary Policy:

"According to an Associated Press dispatch of Oct. 14, Representative Taber says that the Truman Administration is working on a plan to raise the price of gold and to devalue the dollar. Will you not give the people of this country such protection against this as you can by calling Secretaries Snyder and Martin before your Committee for an explanation and demand that they assure the public that no such program will be recommended? Let us get the facts now and not have a Cripps surprise."

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Prices of government securities are still on the defensive in a thin and not too active market. . . . There does not seem to be any unusual amount of uncertainty in the picture that would account for the lack of action and most holders of Treasury obligations are not concerned over a substantial downslide in quotations. . . . There is, however, considerable hesitation on the part of purchasers of government securities, because they are evidently trying to catch a bottom which usually makes for small and spotty buying. . . . It is believed by some money market followers, prices are making a base and will rebound shortly and those that are trying to get the last drop out of the situation might miss the boat. . . . It is pointed out money will be easy for a long time to come and because of deficit financing, interest cost will be kept at a minimum. . . . This means no long-term high coupon Treasury issues. . . . Despite outside competition funds will have to be put to work in the government market, eventually, and all of it will not be invested in shorts, because of the need for income. . . .

Neither bank nor non-bank investors are dominating the government market at this time although they are the leading forces in the picture. . . . The whole market has been too small an affair to be affected by the operations of any one group. . . .

BANKS ALTER BUYING POLICY

Despite a considerable amount of professionalism, which moves prices of Treasury obligations up and down within restricted limits on light volume, there has been good investment buying of both the eligible and restricted obligations. . . . Commercial banks continue to take selected issues out of the market, with some of the largest institutions in the deposit business again extending maturities. . . . Commitments are being made by a few of the large urban institutions in the longest partially-exempts, the more distant taxable 2s, the 2¼s due 1956/59 and the 2½s due 9/15/67-72 with the latter two purchases a rather radical departure for some of these banks from the previous policy of buying only the near-term end of the list. . . . Whether the New York City banks will move out into the longer taxable end of the market, in more sizable volume, remains to be seen. . . .

Nonetheless, the purchases of the eligible 2¼s and 2½s so far by certain of these deposit banks have been large enough to make some money market followers sit up and take notice. . . . There has been some switching and some new money involved in these commitments. . . . The swap have been mainly from the earlier taxable 2s and the near-term partially-exempts. . . .

INSURANCE COMPANIES ON SELLING SIDE

Life insurance companies, that is, the large ones, have again been sellers, in a not too substantial way. . . . These eliminations according to reports were made to cover higher income commitments which were made in private industry. . . . The Victory bonds were sold in the heaviest volume by these institutions although the 2¼s due 1959/62 were also let out in fair amounts. . . . It had been expected that short Treasuries would be used by life insurance companies to meet needs in non-government investments. . . . This was the case for a certain amount of the funds recently required, but it was also decided to let out and take profits in some of the longs. . . .

According to advices, the short-term position of life insurance companies in government securities in most instances will not be drawn down too fine, at least not until there is further clarification of the economic situation. . . .

SAVINGS BANKS ACQUIRING ISSUES

Savings banks continue to like the longest ineligible issues and, along with a few of the dealers, readily absorbed the tap bonds that were sold by the large life insurance companies. . . . The professional market with its not too sizable price changes has nevertheless been of some use to the savings banks, because they have been able to make most of their purchases at the low point of the range. . . . Traders and other quick-turn operators as a whole have not had enough confidence in the trend to compete with the savings banks for the eligible issues which have come into the market for sale. . . . This has left the situation pretty much to the savings banks on the buy side and they have been able to make use of nominal bids or somewhat lower than prevailing market prices to acquire needed issues. . . .

As a matter of fact, traders have in some instances unloaded positions at lower than prevailing quotations on savings banks buyers. . . . There is, however, still an important demand around for the ineligibles but there is no tendency yet among savings bank purchasers to go out and bid up quotations because they are doing too well by playing it cagey in a dull, not too active, market. . . . Sizable blocks might, however, bring better prices. . . .

FOOTNOTES

The equity market continues to get attention from both traders and investors and this is taking funds away from the government market as well as out of it. . . . Although liquidation of Treasuries in order to go into the stock market has not been too sizable yet, there have been some fairly good-sized disposals in order to get funds that are being used to buy equities. . . .

Economic conditions continue to dominate the government market, but the answer to many of the problems should not be long delayed. . . . It is believed in some quarters the coal and steel strikes will have to be settled within the next fortnight or there will be considerable deflationary pressure on the economy. . . . A business turndown should mean higher government security prices.

The Technique of the Sales Interview

(Continued from page 4)

interview and good for the sale.

Another thing that the prospect should do is participate in your demonstration. We'll talk about that later on when we are talking about the demonstrations.

Next he deliberates upon the purchase. Somewhere along the line, if you are a good salesman, you get him to the point where he is thinking, "Well, now, I wonder if I had better buy this or not?" You've got him up that far, and certainly you want to take it that far and follow through correctly.

The Buyer Raises Objections

Also, somewhere along the line, the buyer will raise an objection. You must anticipate these objections when they come up during the course of any interview, and be able to take care of them properly. We'll also talk a little bit more about objections later.

Then he makes a decision. He's got to make that decision, then he's got to voice that decision, and then he either signs the order or somehow or other he indicates to you that, "Yes," he will buy.

Look upon this sales interview objectively and think of that person across the desk from you, that he has certain actions he has to take if you are going to make a sale, and these are some of the things that he must do.

Selling is certainly not one-sided. The salesman doesn't do it all. It has to be a mutual piece of action, where the seller contributes so much and the person who is going to buy contributes so much, to that interview.

Think about your own selling technique and ask yourself if you, in the past, have been giving enough attention to the role of your buyer, and what you want to have him do in order to make a purchase from you.

Be Prepared to Do Your Part

Up to now in this subject we have been thinking of the buyer, the prospect. You have got to make sure that when you are talking to your customer that you are wholly-prepared to do your part, to do a good selling job.

Before a lecture, such as this one, the speaker may sit here and experience changes in the waves of feeling which come over him. Perhaps at one minute he would feel very enthusiastic. "I could start to go at this right now and do okay!" Then at another moment he might feel, "Well, it's best to wait a minute." People are like that.

And the salesman waiting to get into his prospect's office is like that, too. When you want to make the right opening you can if you have control over yourself. If you will think back, haven't there been times when you have been sitting out there waiting to see a new customer—maybe there is a salesman in there ahead of you—and you have to wait a while, and you say, "Well, what am I going to say when I get inside? I wonder how I'll open this interview? How do I feel, myself"?

Well, you must feel just exactly right when you hit that door. Have you ever watched people playing golf? They'll move all about and make motions, then suddenly they feel they are ready and they sock the ball. They condition themselves, get their nerves and mind and everything to the point where, "All right, now they're going to hit that ball."

It is the same way with a sales interview. You, as half of the human factor in that interview, have to condition yourself to feel just right, when you go in. You can say to yourself, "Yep, let's go, this is it. I can really put my story across, right now."

How will you be able to make yourself feel just that way? Well, that is composed of a lot of the things we have been talking about so far during these sessions. You must remember that before your offering is accepted by a prospect, you become accepted. Somebody comes into your home to sell you insurance and I think you will accept him as a salesman first, before you accept the idea of buying a policy from him. That is true in almost every line of selling, that the customer asks himself, "Do I want to do business with this person?"

That is one of the first decisions that he makes. He may make that even before he has made the decision of whether he wants to buy investments or not. First, he will decide on you, whether he wants to do business with you. "Okay"! Then he'll let you sit down and he'll allow you to discuss at some length your proposition.

But if you fail to receive that personal acceptance you are either not going to be permitted to give a complete solicitation, or you are going to find the going very, very rough. Remember that if the person buys $2,500 worth of securities from you, he is then unable to use that $2,500 somewhere else. If he commits himself with you, that means he can't commit himself, as far as that expenditure is concerned, with anyone else.

If you are going to buy a new house and you finally decide that you are going to buy it from this builder over here, after you have made that purchase with him, you are obligated with him. You may be very glad that you are obligated with him, but you are, any way, for when you have made that commitment you can't go somewhere else, so that the responsibility of the seller in relation to the buyer is quite substantial.

If you are going to sell securities to Mr. Jones and he buys from you, then his commitment with you is very important to him, so before he makes that commitment with you he has to pretty well accept you in person, so that he won't regret doing business with you. Because after he has placed the order, he can't say, "Well, I wish I had gone to someone else." He has made up his mind, he has bought the investment, and he is obligated with it.

Personal Side of Salesman Is Important

So that the personal side of the salesman, himself, in selling, is terrifically important. That is about all the time we can devote to the subject of the human factor in sales solicitation at this point, but remember that it's the people who do everything in the world, and it's the buyers and the sellers, that make business, and over and above the importance of what you sell is the importance of the people who persuade (the seller) and the people who make the final decisions (the buyers).

In analyzing what a sales interview is all about, we have the factor of place, the place where the interview occurs. First of all, remember that every factor you can control about the interview should be handled in a manner as favorable to yourself as possible. You must be a little bit selfish in that regard.

As far as the elements of your transaction are concerned, the buyer is going to be sure to take care of himself, making things favorable to himself. But you, as a salesman, have to watch out for yourself, too, in making some of the circumstances favorable to yourself.

Material Setting of the Interview

One of those things is the material setting of the interview, the arrangement, physically, where this interview is going to take place. You open the door and enter the office. You start toward the desk. Or, if it is in a home, you start into a living room.

And as soon as you are in there and can see what the setup is, you immediately start to decide where you are going to sit, because that is quite important. Usually, there is a desk there. Well, where are you going to sit? Do you like this side, or do you prefer the other side? Or would you rather sit in front of the desk, facing the man?

Do you have a particular preference for selling toward your left, or would you rather sell toward your right? How about it? Does it make any difference to you? If that is the case, take the position which seems more natural to you.

You are walking in there and making up your mind where you are going to sit. Here are a few things to remember:

In the first place, where on the top of that desk is the most clear space to be found?

It is not a good idea to place yourself on the telephone side. When you take things out of your briefcase, the telephone may cause you to be restricted in the room you have to place your papers. That means you would probably have to move yourself, probably taking a chance in disrupting the interview a bit. Or else you might find it necessary to move things around somewhat. Well, maybe that man doesn't want anything moved on his desk.

So your first decision concerns sitting some place where there is room enough for you to do whatever you want to do, as far as your solicitation is concerned.

The next thing to consider: Is there room enough to sit, on either side of the desk? You have to have a certain amount of space. If you find that the space is cramped on one side of the desk, be sure to move toward the other side of the desk.

Or should you sit in front of the desk? Well, that sometimes presents an extra problem which has caused some salesmen to make a prime mistake, not in sitting in front of the desk, necessarily, but in placing himself so that his conversation is hampered by a lamp standing between the buyer and himself. That's a very stupid thing to do, but we've seen it happen time and time again.

Another reason why it may not be well to sit on the opposite side of the desk is that when you have occasion to show papers to the prospective customer everything will have to be turned around, and if you intend to do any reading or pointing out of facts on the papers you will have to be adept at reading upside down.

You have decided that one side of the desk seems pretty clear, there is sufficient room in which to work. All right, now, how close are you going to get that chair to your prospect? That may not seem to be important, but it is.

If you move very close to the man, practically right on him, that's not good. In the first place, men don't want to get too close to one another, so don't try to get too close to a prospect. Very close proximity is no good.

In the second place, if you work too close to a buyer, he receives the impression that you are forcing him. You don't want him to get that impression.

On the other hand, don't get too far away from him. If your chair is too far away and he is sitting way over there, the personal element is lost to the atmosphere. He fails to have the feeling that he is participating in the interview, or that the subject is not interesting enough for you to kind of get together on it.

So get the chair close enough so that you can make a proper demonstration and he can hear you without your speaking too loudly, but at the same time don't move so close that the impression is created that you're almost jumping down his throat.

I would advise that you sit somewhere where you can get a very good look at the person you are going to talk with. You ought to be able to see as much of him as possible. We are going to talk, pretty soon, about attitude, and how you can find out what a person's evolving attitude is by watching him rather closely.

Sometimes, if you are unable to see what the prospect's hands are doing, then you may be limited. If a man is drumming with his hands, or if his foot is moving nervously, those are little signs that a smart salesman looks for, and if you know what they mean, use them. But at least, you have to sit somewhere where you can see what is going on.

Take into consideration the eye-level. Do not take a low seat, so that the buyer is looking down upon you. That is bad. You don't want him in any way to consider that you are any lower than he is, and I mean that even in the physical sense, that he has an advantage over you if he is up there looking down at you. So sit where you can be eye-to-eye with the buyer, and that will make it easier to balance the social situation, also.

"Don't Take the Lounge Chairs"

When you are selling, you are putting forth positive statements. You are making strong declarations about the value and the good quality of what you are selling. If you are slumped away down in a chair, a lounge chair that you have decided has a comfortable appearance, you can not be alert, or give the appearance of the aggressive kind of salesmen that I know you are, so don't take the lounge chairs when you go into these offices, and you will find quite a few of them in there, but take the straight-backed chair that you can sit up in, that keeps you alert and keeps you right in there pitching all the time. Certainly, if you are slumped deep into a comfortable lounge chair you will be handicapped as far as an aggressive delivery is concerned.

Sometimes you get into an office and find yourself looking at the customer, and there is a window behind him, through which the sun is shining directly into your eyes. Never take such a seat, because that situation will prevent you from knowing what is going on. If he motions you to a chair where there would be a strong light glaring into your eyes, just remember that you are not under any inquisition and just say, "I wonder if I might move my chair a little bit? The light is bothering my eyes."

Don't allow them to place you in such a disadvantage, and be careful that you do not place yourself in such a disadvantageous position, either.

There are other factors, the temperature, for instance. If the temperature is not right for a good solicitation, try to do something about it if you can. Maybe you will be able to suggest that a window be opened, or if it is freezing and you are in there with your teeth chattering, and talking to some Eskimo, ask him if the window might be closed for a while so you can talk.

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The Technique of the Sales Interview

(Continued from page 23)

He has allowed you to come in and talk with him, and in doing that he should show politeness enough to afford you a certain amount of comfort. If he doesn't, then you have the right, as a guest, to make a try, at least, to get it.

Maybe you are going to call on this gentleman and he is very glad to see you, and he comes out to see you in the outer office, where there is one of those little fences running along, with a swinging door on it, and he stands right there:

"Why, yes, Mr. Smith—Well, what is it that you've got today?"; and what do you do in that case?

You certainly do not try to sell him anything, out there. You can not do it. He's just put you in the position where he's going to get rid of you fast, and yet he wouldn't admit it, perhaps, but that's exactly what he was planning. He's been sitting there in his inner office and you have been announced, and he says, "Yes, I know how to talk to that fellow."

He makes a display of being very, very glad to meet you, but not quite glad enough to have you come into his office. So you start talking, and the first thing you know you are downstairs in the elevator wondering what happened.

Well, when that happens to you, don't give him your canvass, in the outer office. You certainly won't sell him any investments that way, anyway. Ask him if he would kindly let you come in and discuss this investment proposition that you have.

Rather than get killed in a solicitation at the doorway, try to make an arrangement for a real interview the next day, or a couple days later on. You've got to have a certain amount of privacy in order to sell anything. If you have ever sold with a lot of people looking over your shoulder and taking things off a person's desk and pushing you around in the process, you'll know that is not an ideal situation.

Solicit Under Conditions of Privacy and Comfort

A good salesman, during his approach, arranges things so that he is given a certain amount of privacy and comfort to run his solicitation. Sometimes there are other distracting influences. There may be a large and noisy fan going, so that you can't hear him, and he can't hear you. Well, in that instance, don't simply sit there and hold a very poor and unsatisfactory conversation, but ask him if you can turn the fan off, or if you couldn't both go to some other room for a few minutes.

You may consider some of these things to be a little to forward for a salesman to ask for, but I say they are not, because if you do not ask for them you probably won't make a sale.

The basic principle involved here is that you as a salesman, for your own interests, should arrange the physical setting of this interview in such a way that it is favorable for you. If you don't do it, most of the time no one will do it, so take these things into you own hands and try to do something about them.

We have talked about the people involved in these solicitations, and we have discussed the place. We will now talk for a few minutes about another very important factor, time.

The time of the day that you make your call is very important, as far as any particular account is concerned. We have already talked about the "hunger" condition that we meet sometimes. You can't try to sell a hungry man, because you will have too much competition from inside.

Also, if he is tired and you are tired, you do not then have too good a chance to make a sale. So time your visits in relation to the fatigue element, in order to eliminate that unfavorable eventuality.

The Time Element

Another thing as far as the time element is concerned is the amount of time available for the interview. Does the person you are to call upon have time enough at that moment to give you a satisfactory interview? Is there sufficient time for you to give your regular presentation?

These are all items that you try to take care of in your approach. You can tell by the pressure of the man's work, and maybe you can ask him, point blank, if he has time enough to give you an interview.

Perhaps he will ask you, "Well, how much time do you want?" How about it? How much time do you want?

You call up a prospect on the telephone and say, "Mr. Brown, I would like to come over and have a little talk with you."

"Well—", he says, "—I would like to see you, but how much time do you want?" What are you going to tell him?

As far as the time of your interview is concerned, it is up to the individual salesman to find out how long his complete solicitation usually takes. You will have to experiment as to what is usually the optimum time in which to make a sale, for a first call, or for a second call, or for a good service call.

These are the fine points of selling. One of them is this regard for the correct timing, as far as your opening is concerned, and in this particular topic, right now, we are discussing time, as far as the length of your interview is concerned.

One fellow says 15 minutes. Another says 35 minutes. Probably someone else may want more time. The determining factors are yourself, the complexity of your proposal, the amount of knowledge of what you are selling that the prospect has, and numerous other things that we could go and discuss, but I say that in limiting the time of an interview, you should know about how long it would take you to cover what you wish to cover in that interview.

Let's say it's forty-five minutes. You have decided that forty-five minutes is a good length of time to make a complete solicitation. Then if you wanted to do a good selling job you would have to break that down into the different steps of the sale.

How much time are you going to use for your approach? How much time are you going to allot for your initial presentation of your proposal? How much time can be allowed for making a demonstration, or for examination of the investment literature that you have brought over? How much time do you think you will need to kill any objections that may come up?

Closing the Interview

Pricing is going to come up, and you are going to have to tell the prospect about current prices of these issues, and the yield, and that sort of thing. Then you will come to the point where you will try to close.

You should have some relative evaluation of those steps, as far as their time is concerned, during the process of a sale. If you lack such an evaluation, you are just going in there and running a hit-or-miss solicitation and not doing a well-planned job, or giving an efficient talk.

Again in regard to time, the pacing of your delivery is determined directly by the rate of absorption of what you say on the part of your listener. You can only go as fast as he appreciates and understands what you say.

Before you go in to call on an account, you've got to give some consideration to the circumstances that have occurred prior to your interview. You have got to weigh your own solicitation according to them, according to those circumstances.

For instance, how familiar is this prospect with the investment market? How much experience has he had with what you are going to discuss?

Another point is, how much experience has he had with you, or with another salesman who preceded you, from your investment house? What is the history of his relations with your investment house?

If you bounce in upon an account that your manager sent you over to see, and you don't know anything about their previous relationship with your house and, immediately upon getting into the gentleman's office, you are met with a terrific thrust of how bad his experiences with your house have been, if that takes you by surprise, you are not prepared to meet it.

On the other hand, if you had found out something about that before you got in there, you would be enabled to work out something to go on that would alleviate that situation to some extent. At least you would know that he is going to jump you, and you would have something ready to come back at him with, so it would be smart for you to remember to review in your own mind, or with your boss, what has happened, before you call on a new account.

Another thing that you might familiarize yourself with is that prospect's experiences with some competitor who has been handling the account ahead of you. If you knew how much service the competitor had been giving and some of the other circumstances concerning the particular investment salesman who handled the account, then I think you, yourself, would know better how to go about your solicitation.

There may be other pertinent circumstances that you would like to know about before you call on him, anyway, the principle being that it is well for you to be aware of what has gone on before you make your call.

Another thing for you to be conscious of before you get into this interview is to ask yourself exactly what is the subject of the interview. You are not always going to talk about the same thing either on original solicitations or where you are going in to try and get a customer who has been on your books a long time, to place a little more business with you.

You say to yourself, "Let's see, what exactly am I going to talk about, when I go in there?" "Is this a new account, and am I going to give him my usual solicitation," or maybe, "I am going in there because the manager asked me to go in to talk about a certain issue of bonds that he thinks this prospect would be interested in."

You have a particular reason for calling, each place you go. Just review that reason and know exactly what the subject of your call is going to be, before you get in there and sit down.

After you have started your solicitation, stay on the subject. Don't let the buyer wiggle away and start talking about other things. There isn't a salesman in this room who has not experienced that situation.

You get in there and start talking about investments, and the particular industry that you think this person might be interested in, and all of a sudden before you know it you are way around back of the barn somewhere talking about something else. The prospect has led you away from your subject.

That can easily terminate your interview very fast. Don't allow him to wander all over the place. Stick to the subject. If you get off the subject during the discussion, it is certainly up to you to bring it back on again.

That will happen time and again. You sit there and you hear this chatter going on from the fellow you are talking to, and say to yourself, "How in the world did we ever get to talking about this thing? Here I am in here trying to sell this fellow securities and he is telling me how he raises pet minks, or something like that. I don't want to talk about that. He's been yapping away at it for 20 minutes. He's in his element."

But you are sitting there there tearing your hair. It's not making a nickel for you. What do you do about it? If you let him keep on talking, you certainly are not going to get anywhere, so you might as well take a chance and come in there and kill that subject and get to talking about investments, somehow or other, even if you have to interrupt, which I do not usually recommend. But in such a case you have to do just that.

"Stay on the Subject"

Stay on the subject or you are going to be killed fast—and out the door.

Lots of times during an interview the telephone will interrupt you. It seems to have priority over personal calls. Why that is I don't know.

You have made your appointment a week in advance to see this gentleman at 10:15 in the morning. You get in there and you're doing fine. Ten twenty-five, and the telephone rings and he's busy talking on the phone for 10 to 15 minutes. It's bad. It's vicious. It is evil, as far as a salesman is concerned.

When you are talking with the customer, you are getting his attention and arousing his interest, developing his conscious awareness of the need for doing something with his savings. He is beginning to feel that, "Yes, I really should be doing something more constructive with my money. It will give me a chance, maybe, to increase my capital, or at least to get a good income from it, as this young fellow says."

That warmth is being stirred up inside of him. You are moving him. You are evolving his mind gradually, through your conversation, to the point where maybe, "Yes, I think——"

And at that point, the telephone rings and he's talking there for ten minutes. You have lost him completely. He is way off somewhere else entirely with that interruption. He was almost to the point where he was committing himself, he was taking a deep interest in investments, and then this thing took his mind and just threw it way off.

Now, after he hangs up that telephone, here is what you must do, gentlemen:

You have got to regain his attention immediately. If you won't, he is liable to kill the interview right at that point. That is a very good chance for a prospect to end the interview, where he has an interruption. You had him along to the point where he was very much interested and now his mind is on something else, and he comes back from the telephone and may say,

"Well, I'm glad you came over, but I'm going to be very busy now. Maybe if you come back within the next week or so—"

When he hangs up that telephone, you say something first. Don't give him a chance to wriggle out of this talk you are having with him. You say, immediately:

"Mr. Brown—" and get going and get his attention. And you will have to repeat, review a little bit of what you have been saying, to get his mind back into that groove again, to associate his thinking with investments and securities.

It's up to you to do that, because he will seldom do that by himself.

Sometimes you will be talking to a very smart gentleman who hangs up the telephone and, right off the back he will come back and say, "All right now, you were talking about A.T.&T. . . . What about that?" He knows just where he was, but most people won't remember.

However, the person who has to remember is the salesman. As soon as there is an interruption, you immediately make a note, mentally, of where you were. Don't forget where you were. He might even come back and say, "Well, where were we?" and if you don't know where you were its a weakness on your part. You have to know exactly where you were.

Try to get that prospect back in the same mental condition of interest that you had him in before, and then go on with your solicitation.

On the other hand, sometimes a salesman just blesses an interruption. He is not doing so well. He floundered down, and the fellows got him right underneath his elbow and he doesn't know what to say, then all of a sudden the telephone rings and the other fellow is out for five minutes. The salesman sits there thinking about the problem that had come up. When this prospect gets off the phone, he knows right where he was. Now he's got an answer to that question. He was able to calm down and catch up with himself, and sometimes we do bless an interruption if we aren't doing too well.

Maybe the particular topic being discussed at the time the telephone rang was bad, and if that is so when he gets off the telephone, you certainly don't pick up that thread of the conversation again, but go to something else. So sometimes an interruption can help you, but in most cases it is not too good and sets you back.

Attitude in Sales Work

For the rest of the day we'll talk about one of the most important factors involved in sales work, "Attitude."

The other night, my wife and I stopped for ice cream at the Schrafft's in our neighborhood. The bill was 61 cents, and the cashier's desk was located at the door. I had a dollar bill and, seeing that the check was 61 cents figured that I would put down the extra penny in order to get even change.

It didn't seem as though I was taking too much time in finding the extra penny but in the meantime there was a man behind me —this was about 10 minutes of 12 at night—there was no great rush and this man and I were the only two in the line, if you can call two people a line, but this man walked up with his check and money and put it down right on top of my check. The cashier noticed this before I did and said, "Please let this man pay his bill first."

Although I don't remember exactly what I said, it was nothing of a nasty nature. Now, the action was that he had placed his check on top of mine, and each of the three people involved had said something, almost at once. What this other man said was, "I'm sorry," in a matter of fact manner, as he picked up his check. I said, "All right," paid my bill and went out.

Suppose I had said, "Listen you, so-and-so, get your check out of my way!" I doubt whether, in that case, the fellow would have said, "I'm sorry." We would prob-

ably soon be out on the street brawling.

That is "Attitude." It was not so much the action but the attitude established by the action which determined the outcome of that whole transaction. We did not end up out in the street brawling. The fellow had just inadvertently happened to put his check on top of mine. He said he was sorry and I, in my turn, had also acted properly.

The same principles could apply in a case where you are hanging on to a strap in the subway. Here is a man hanging onto a strap in the subway and suddenly there is a terrific jolt, and someone bumps into him very forcefully.

However that person looks, or whatever he is doing, or what he says will determine what you are going to do. If he reaches over, grabs your arm and says, "I'm sorry," or something like that, that will be okay. But, again, "Well, Joe, what are you going to do about it," with that you are probably likely to argue with him and it may even end up with your taking a poke at each other.

It is the attitude which determines what is going to happen. Now, the same thing is true in selling. It is this inter-relationship of the attitude which determines to a very great extent what is going to happen.

C. C. Yung, Psychologist, defines attitude as being the readiness of the psyche to act, or to react in a certain direction.

The state of readiness consists of the presence of a definite combination of psychic factors or contents which will either get action in this or that direction, or will comprehend an external stimulus in this or that definite way.

Attitude signifies an expectation which always operates selectively. It gives direction. Such a conscious content favors the perception of everything similar and inhibits the dissimilar. You hear what you want to hear. A person who likes baseball likes to have someone come in and say something about baseball. They are interested in it already. Their attitudes are receptive toward that subject.

You go into another office and they believe that baseball is just a commercial racket. Their attitude toward the subject is entirely different. If you bring up the subject of baseball there you won't get very far.

We all have attitudes that lean either one way or the other. If we do not like a certain person, we have very much of a dislike for that person, then anyone who says anything to us against that person, we accept that, because that is the tone of our content.

As far as our mind is concerned, relative to that person, when someone else comes along and starts praising the person that we have disliked very much, we don't go along with him because that is not consistent with our attitude in that direction.

There are two kinds of attitudes. One is the general, basic attitude which is determined by whether you are leaning toward an extroverted or an introverted type of person; or it is based upon the functional typing of the individual, as to whether he is a thinker, whether he feels things, whether he is moved more by the intuition or whether he is moved more by sensation.

Personal Characteristics Determine Attitude

Personal characteristics determine the attitude. A person who is happy all the time, their basic attitude is one of pleasantness and happiness. And on the other side is a person who is ill-disposed, feels bad all the time, who is grouchy; that is their general kind of attitude.

The only thing that the salesman can do, as far as analyzing general attitude and playing up to it is concerned, is that he tries, after he is acquainted with his steady customers, to type them, as far as their general attitude is concerned and treat them accordingly.

You treat an extrovert, saleswise, quite differently from the way you would treat an introvert. We are not going to discuss too much this general attitude, but what I am more interested in, as far as the concrete sale is concerned, is the other type of attitude which is your immediate attitude. You might call it your mood.

A mood is more a reaction attitude to something that has happened in the fairly immediate present. You can not change a person's general attitude, but you can change their immediate mood, or their immediate attitude.

For instance, you pick up the paper in the morning and you read a certain story and it hits you pretty hard. It changes your mood.

You have been to the race track and lost $75 and on the way home you may not be as happy as you have been at other times in your life.

Your mood has been conditioned by the occurrence of losing so much on the nags. Your health on a particular day might not be too good, and that also affects your mood. A bit of unpleasantness at home may determine what your mood will be.

We are always in some kind of a mood. It is very rarely that we can suspend our attitude. The toughest person in the world to sell is the stone-faced, dead-pan individual who is trying to suspend his attitude. You have all tried to warm up that kind of a person and you know how hard it is. He just sits there practically impervious to any of your selling points or suggestions.

You can move him neither one way nor the other. He is just stone-faced. You know how very difficult it is to deal with that kind of a person. Whether he is aware of it or not, he is trying to suspend his attitude so you can't work with his attitude and evolve it the way you want to.

There is a continual relationship of attitude between people. As soon as anybody walks into the door of your office, you look at him. If he is happy, you receive one impression. If he is owly-looking, you get another impression. And suppose that person who is coming to see you is walking toward your desk, walks around it and sits down. By the time he is in the chair there, you have adjusted your attitude pretty much to his.

If it is the boss, come in with your sales record, and he gives you the glassy eye and starts walking down towards your desk and finally he gets there; by the time he lands, if your record has not been pretty good recently, then he has affected your attitude.

Remember the incident at the cashier's booth that I just mentioned? The inter-play of attitudes there was all-important in determining the outcome of the incident. If I had taken the check and thrown it at the man, or looked at him with a pugnacious attitude, instead of being sorry, he might have said, "Well, all right, what about it!"

The interplay of attitude goes on continually when two or more people get together, because interaction is inevitable. You can't get away from it. When you see a salesman walk in to see a person, or your customer comes in to see you in your customer's room, as the approach takes place and the contact begins, immediately the interplay of attitude begins also. They are very happy over the last selection of a stock, and when they come into the room you can see that and you will react to it and feel fine. Everything is going to be lovely this morning.

On the other hand, the particular recommendation that you made a short time ago—it didn't turn out so well, and they come in and look at you and things are not going to be so good this morning. That goes on continually.

If a salesman is going to sell investments to a person he has to establish in that buyer a buying attitude. If he doesn't do that, there is no sale made. Everything you say, how you look, everything you do, molds the attitude of your prospective buyer so that when you come into contact with the buyer in the first place you must be very careful to control your own attitude, because your attitude should be the one that sets the mutual attitude.

It is most necessary that you make note of that point. It should be the salesman's attitude that sets the atmosphere and mood for that solicitation to take place in. You come in there alert, progressive and set that kind of an attitude — forward-looking, affirmative, positive, in which a sale can take place.

You have got to be most careful to exude that kind of an attitude, yourself, and try to get him to accept it.

At the same time, you must not be adversely affected by his attitude, if it is a wrong buying attitude, and that is the second point, here:

You come in there with the right attitude—that's why we spent so much time on this "immediate preconditioning," outside the door—or, before you pick that telephone up, and you can express attitude over the telephone, too, and you set the right attitude, yourself, and if you find that your prospect is not in the right attitude, you must not abosrb the wrong one from him.

How many times have you gone in to see a person and felt pretty good and by the time you were just about ready to open up your canvass you know you are sunk, because they are all wrong for buying that day, and they put this wet blanket over you and are able to kill all your selling aggressiveness.

They had an attitude which overreached your own and killed you off. That is a thing which you can not allow to happen. Control your own attitude, manifest it in such a way that it is absorbed by the other person. Don't allow yourself to absorb his bad attitude.

The inter-effect is continual throughout the interview. There is a continual inter-relationship of attitude between buyer and seller that goes on until you leave the office.

At no time can you let them slip into such a negative attitude that they fall away from a possible buying attitude, or mood, and also drag you down to the point where you give up and defeat your own purpose in coming there.

Not only do you have to set the original attitude to be carrect for a sales attitude, but you have got to keep it up during the whole course of that interview. That is what real selling is. That is what planned, careful, technical selling is. It is to influence the person in every way that you can to get them to accept your proposals that they buy investments from you.

How do you do it? You do it in two ways. The first way is the physical manifestation of your attitude, your facial expression, your aggressiveness, your posture when you come in and when you sit down, the general manifestation of your personality, so many of the little things that go on all the time, such as nods of the head and every little thing that manifests a person's attitude that you can see way across the room.

Dominating the Buyer

In displaying this correct selling attitude, you dominate the attitude setting, but you do not dominate the buyer. A seller never actually dominates the buyer, because in doing that you close him up. When the point is reached where you are dominating him, he is going to resent that and get rid of you fast.

If you pick up the "Saturday Evening Post" and look at the current advertising for Cadillac, you will see an illustration of a nice car there, and also showing some fine jewels in the picture. Have you seen those ads? They have nice spacing and a nice tone. Everything about it looks very rich and aristocratic.

That is an example of tone-setting, setting the attitude with indirect selling.

On the other hand, you pick up a tabloid newspaper and look at an ad for some of these dress shops on Union Square, the type-setting certainly is very different. It is just a mass of black and white and figures which yell out "Bargain!" They are attempting to set an entirely different type of sales attitude in their advertising message.

What the advertising industry has learned to do in indirect selling, certainly the individual salesman can learn to do in his personal contact, which is much more important with the customers in establishing the right kind of an attitude with them, at least to be in an accepting attitude, to listen and to evaluate your proposal.

That is your first objective when you come into contact with a buyer. At least get them into the attitude that they are willing to listen to you and give a fair judgment on whether they should go along with your proposition or not, and much of that is accomplished by this business of attitude.

Everywhere in life there are opposites, light and dark, good and bad, love and hate, high and low, rich and poor; every phase of life has its opposite poles, positive and negative. Maybe that is to maintain a balance.

There is an opposite to "No," and that is "Yes," and every mental attitude that is negative has the ability to change to "Yes." For every "No" there is an opposite "Yes" lurking somewhere in the buyer's mind. You know that, yourself, from your own experience in buying things, that at a certain time, "No, you weren't going to buy anything," and later

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The Technique of the Sales Interview

(Continued from page 25)

on you do buy something. We often change.

So if you hit a very negative attitude, don't give up. Just be aware of the fact that underlying that attitude somewhere is the exact opposite that can be made to overbalance the negative attitude and count for your purposes.

How do you read attitude? You have been talking with some buyer and you see him sitting there with his eyes just fixed looking straight ahead of him. You don't have his attention.

You talk with some other buyer and he is worried. You can tell that by his face—that he is worried. You've got him interested, but he's got something that is worrying him very much, about whether he can go along with you or not. The tone of his voice when he talks to you, the manner of his speech, the way he sits, what he is doing with his hands: there are many things like that that can flag his attitude on whether he is going along with you or whether he is not.

A person manifests his character, too, in many ways—these little things that the buyers do. The way they give an order to their secretary, the way they pick up the telephone and hold the conversation; it's the little things like that, if you observe pretty closely, you can determine what kind of a person he is and how you are going to deal with him.

Just to close this subject of attitude, it is your initial contact that is most important. As soon as he looks at you, you will find that he has begun to evaluate you. He is evaluating what kind of a person you are, and your attitude, your sincerity, and everything about you.

It is necessary that you make it easy for him to read that you are the right kind of a person. It is not always easy to evaluate other people. Experiments were made which have shown, where there have been pictures judged by a lot of psychologists, that criminals alongside of college professors could not be differentiated just from their faces. It is not easy to judge people.

Therefore, when you come into the presence of your customer, make it easy for him to see that you are the right kind of a person, by manifesting your attitude and personality quite clearly, very clearly—and you may have to exaggerate a little bit in order for him to see that it is right and say to himself, "This is going to be all right. I am going to be able to do business with this fellow. I can talk to him. He is not snobbish or hard to get along with," because right off the bat you have melted him down.

I think that just in the first few seconds when you come in that door that is a most important time in this business of the establishment of attitude and the acceptance of yourself.

Keresey Associated With F. S. Moseley Co.

F. S. Moseley & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announced the association of Edward J. Keresey with the firm. Mr. Keresey was formerly with Estabrook & Co., and prior thereto conducted his own investment business.

Chicago Exch. Member

CHICAGO, ILL, Oct. 14.—The Executive Committee of the Chicago Stock Exchange has elected to membership Harold C. Brown, President of Harold C. Brown & Co., Inc., Buffalo, N. Y.

The Business Outlook and Our Philosophy of Government

(Continued from first page)

willingness or inability of corporations to borrow is a normal feature of economic collapse, one which has accompanied every depression in our history. The 1949 decline in business credit—based not at all on inability to borrow—was in part seasonal, in part the reflection of a sliding price level, and in part the result of a healthy reduction of inventories. Had prices declined in a chaotic and disorderly manner in the last year or so over a broad field of manufactured goods in a short time, instead of being in a rolling pattern covering one field at a time, the decline in business loans might well have given us pause. As a matter of fact, the price adjustments which the economy has effected in recent months have been comparatively mild and, on the whole, orderly.

Another reason why many believed that business activity was headed for the same sort of collapse in 1949 as it experienced in 1920 and 1937 was the sharp drop in industrial production from September, 1948, to July of this year. Corresponding with and reflecting the decline in industrial output, there was a severe curtailment in manufacturing employment beginning around the last quarter of 1948 and continuing through midsummer 1949. It is obvious that the drop of 17% in industrial production and its counterpart in manufacturing employment cannot be lightly dismissed when attempting to explain what happened in the business world in late 1948 and early 1949.

Increase in Manufacturing Unemployment

Of all the dismal performances by the more popular economic indicators, however, the one which probably overshadowed all others in convincing the business community that something was seriously awry with the economy was the behavior of total unemployment. The level of unemployment in mid-1949 was just about double what it was at the corresponding time in 1948, and there can be no question but that employment is the guts of the entire economy. But what seems not to have been generally recognized is the fact that *the increase in manufacturing unemployment wholly accounted for the increase in total unemployment.*

It is, in my opinion, impossible to point out any other significant tangible economic factor which has declined dramatically during the course of the last year other than those I have already mentioned. If this be true, the recession which business recently underwent boils down to a sharp drop in industrial production which, in turn, brought about comparable declines in bank loans, manufacturing employment and total employment. If I can succeed in explaining this decrease in industrial output in such wise as to preclude the probability of its recurrence or continuation, it seems to me I shall have justified my belief that the late and unlamented recession is probably over.

Let me emphasize at this point that the recent decline in industrial output was not primarily due to a weakening of consumption. Whereas durable goods manufacturing fell about 18% from last September to this July, unit consumption of such goods fell only about half as much; and whereas production of non-durable goods slipped about 12% from its peak in 1948, unit consumption resolutely refused to decline at all. Rolling it all up in one ball of wax, it would appear that not more than about one-quarter of the total decline in manufacturing production can be laid at the door of a softening of consmption. Perhaps one of the lessons to be drawn from our recent economic experience is that, whatever the misgivings of the makers and sellers of goods may be, the American consumer wants what he wants when he wants it.

With an over-full distribution pipe line as the war-time shortages were made up, the chief reason why production declined as it did was a profound change in the inventory policies of manufacturers, wholesalers and retailers, who cut their stocks sharply, largely in anticipation or fear of lower prices. Hence the vital question now is whether we can expect the makers and sellers of goods to reduce their stocks more drastically than they were last July, when total business inventories were probably being lightened at an annual rate of $6 billion or $7 billion. Practically all of the drop in industrial output has been arrested. Inasmuch as a $6 billion or $7 billion rate of inventory reduction is higher than the average rate reached in any of the last twenty years, it seems reasonable to suppose that the recent caution exhibited by the sellers of goods reached its uttermost limits last July. The rise in the industrial production index in recent weeks — aside from the strike-bound industries—seems to corroborate this view.

Late Recession Substantially Over

In summary, it seems highly unlikely that the rate of inventory reduction obtaining in July will be exceeded in the months ahead. It therefore seems unlikely that the decline in industrial production, about 75% of which originated in the policy of lightening inventories, will proceed any further than the bottom hit in July. Therefore the decreases in business loans, manufacturing employment and total employment, which had their origin in the drop in industrial output, are also likely to terminate—barring prolonged and widespread strikes. In short, there appears to be good reason for the comparative business optimism prevailing at the present time. Virtually all of the signs of economic decay seem about to disappear, hence the best guess anyone can make about the business outlook is that for the economy as a whole, the late "recession" is substantially over.

What I have already said about our business prospects for the next 6-12 months carries the implied premise that the high level of consumption or spending which supported the economy during the past year will not radically change for the worse. My confidence that the pattern of demand will not be drastically altered rests on what the future seems to hold in store for the four great users of goods; i.e., the individual consumer, the businessman, the foreign buyer and our own governmental agencies.

Categories of Spending

How much the individual consumer will spend in the future depends upon how much he will have to spend and how fast he will spend it. With regard to the amount of income at his disposal, bear in mind that two-thirds of all personal income takes the form of wages and salaries. If, as appears to be the case, the level of immediate or deferred wage rates is about to be given another hike, the outlook is for a larger rather than a smaller number of dollars for the individual consumer to spend. Heaven forbid that you should read into this conclusion any approval on my part of the pernicious institution of an annual round of general wage or pension increases. I should, on the contrary, be inclined to describe this practice in the words of Mr. Riley of radio fame—"What a revoltin' development!" I shall have more to say on this subject later; all I am trying to impress upon you at this point is that a wave of pensions spread through American industry will result in an increase in dollar purchasing power in the immediate future, whatever may be washed up on the beach ofter the wave has finally broken. Furthermore, we are only a few months away from the payment of Veterans' Insurance refunds. Since a total of $2.8 billion is to be disbursed during the course of only six months, individual purchasing power will be given a temporary shot-in-the-arm.

With regard to how fast the individual consumer will spend the income available to him it is simply not true that the consumer has been in as desperate straits as is generally claimed. The fact of the matter is that there has been a fairly regular increase in the rate of gross personal saving ever since the second quarter of 1947. Over and above his high savings out of current income, the consumer now has a cushion of accumulated savings in the total amount of over $300 billion, two-thirds of which has been laid aside since 1940. This is hardly the picture of a buyer who is hanging on by his fingernails. In short, no serious decline in the rate of consumer spending appears to be in the cards.

So far as business spending is concerned, it is indeed unlikely that plant and equipment expenditures by American corporations will reach the stratospheric levels of late 1948, and I freely concede that, if the recent mild economic recession should continue and unless business confidence in the future is restored, it will most likely spring from reductions in their purchasing of capital goods by corporations. Even here, however, it is necessary to maintain our perspective. Granted that corporate profits provide both the ability and the incentive for business spending, and granted that such profits fell from $22 billion in the third quarter of 1948 to $15 billion in the second quarter of 1949, there was no such decline in undistributed *cash* profits. This paradox has its origin in the fact that corporate profits were largely fictitious inventory profits from the end of the war through 1948, as I have often pointed out. Such illusory profits have only recently been eliminated by declining price levels. The *real* deterrent to capital expansion on the part of business is industry's understandable reluctance to go whole hog on its capital programs in the face of an openly hostile or at least unsympathetic government. It is admitted that some cabinet members are not hostile.

The source of demand in which a decline is most likely is our export surplus, particularly in view of the recent world-wide currency shake-up. Before losing our heads over the recent developments in this quarter, however, it would be well to reflect that our gross exports constitute but 6% of the total business done in the United States, our net exports but 2% and our net commercial exports less than ½ of 1%. This is not to say, of course, that the psychological impact of devaluation is anything but deflationary or that certain individual industries will not be hit hard. But, to be brutal about it, it is conceivable that much, if not most or all, of the reputed benefits of devaluation will have been squandered within a year through the inability of foreign governments to control their own wage levels or to increase their export trade. The whole world has to learn that production is the job of all of us. If nations cannot attain it, they will reach a point where their policies become unwise, not only economically but also politically.

Whatever the feelings one may entertain about the ultimate issues of deficit spending, it is certain that the Treasury's fiscal operations at the moment are helping to support and inflate the economy. My object here is only to lay the groundwork for reaching a conclusion about the probable behavior of general business activity in the next 6-12 months. What may happen in the longer range as a result of the blithe spending by Washington of billions of dollars it does not possess is a different problem.

Tangibles of Current Situation

To sum it all up, the implied condition for the maintenance of a healthy rate of industrial production, namely, that the recent pattern of consumption or spending should not appreciably worsen, seems likely to be fulfilled. It is therefore my opinion (and I hope I shall not hang for it) that a review of the "tangibles" of the current business situation indicates:

(a) The most likely course of business in general in the remainder of 1949 and early 1950 is sideways-to-moderately upward;

(b) The next best bet, and still a pretty fair one, is that business will continue slow adjustments or a slow downward trend.

(c) As for the remaining possible directions the economy might take, it seems to me distinctly unlikely that business will move upward sharply, and still more unlikely that we will have a depression.

This prophecy is based on the tangible factors in the economy and not on the intangibles regarding which America should be more concerned than one would judge it is. Every day we see the tug-of-war now going on in Washington, the drive for enlarged powers in the Executive Branch of the government, and the growth of the idea of a planned economy. We see pressure groups backed by votes in large blocs fighting for short-range benefits for themselves in utter disregard of the long-range effects upon themselves or the economy as a whole. We see government practically powerless to stop grabs of all kinds—because if it attempts to stop them, it will lose the elections. We witness a hunger to undertake new and untried plans on the plea that they are forward-looking and progressive. We jump to adopt plans that have never worked in history—plans that are currently failures in Europe. We smear men who sound a note of caution or dare to contradict. It seems that a smear is a lot easier to concoct than a reply on the merits of the issue. We see demands for larger obligations on the part of government. We see few stopping to ask such a question as this:

If this country cannot get all the people want out of the present governmental income, based on the highest national income in history, and based on the highest tax rates in peacetime history, what are we going to do about paying off our debt and keeping our budget balanced, if and when there is any slowdown in business which reduces national income?

These are some of the problems whose settlement—if wisely made—will govern the long-range future, but if unwisely made, will wreck the economy.

Let's try to line up our thinking on some of these matters and then

consider some things we can do about them.

Government Undertaking Too Much

As one who has been watching the development of government policy, and attempting to do a modest bit in formulating a sound policy for the proper field of government in the national economy, it has become increasingly clear to me that government is undertaking too much and, sad to say, that most parts of our population are entirely too willing to let government undertake too much. Unless such men as you can take their full share of responsibility, the great danger is that our people are going to lose faith in our form of government and all it means to them.

At the base of this form of government is the free enterprise system, so we must consider whether any action proposed by government comes within the proper scope of government and whether it handicaps the free enterprise system. *I never like to lose an opportunity to be a crusader for my beliefs as to these national problems,* and I hope to get others to do all they can and likewise become crusaders themselves, particularly in their own organizations. I call myself a crusader because once in Washington Mr. Byrnes told me that one cannot compromise with a crusader, and I don't propose to compromise on these principles. All of us talk too much with others having identical interests and we are not truly crusaders to win the opinion and the judgment of men with different backgrounds and different interests. To get this job done we must measure the plans and efforts of government, not only as to their probable effectiveness, but as to whether the acts are within the delegated powers of the Federal Government, and whether any assumption of powers does not tear down our faith in our form of government—at the base of which is individual liberty, personal responsibility and our free enterprise system.

Let me try to describe this free enterprise system as it appears to me. It is a philosophy, a faith, a thing of the spirit and soul of America. It is not the product of a brain-truster, or of men who have made failures of their lives. It represents the strivings of our people and the evolutionary development of the last thousand years. It is an entirely practical idea, for it has worked in America. It produced a standard of living and a national prosperity not even approached elsewhere in the world. While it can be improved, we should not be constantly on the defensive and we should not waste all our time apologizing for the minor weaknesses of the American system.

The American Way of Life has prospered in the idea that "man is both too weak to wield unlimited power and, thank God, too strong to submit to it." No one has found "ringing words" for expressing the ideas wrapped up in the concept of the American Way of Life, but to me it certainly means all these ideas—equal opportunity for all, personal liberty consistent with full personal responsibility, no leaning on a beneficent or a bankrupt government (the only difference being one of time), no coercion by any one, no favors or benefits by government to one class of its people because of political pressures or with the purpose of gaining votes, no interference with the economic life of the nation, except when clearly in keeping with the national interest—the interests of all the people—no robbing one group for giving to another, or, in even simpler terms, it means the Golden Rule and the Sermon on the Mount.

It is a system based on the idea of a "fair field and no favors," a "profit and loss" system in which the citizen backs his own judgment with his efforts. If the two combine to produce a result pleasing to the public, the citizen gets his rightful reward. On the other hand, if he doesn't do what the public wants, he pays for his own mistakes. This American Way does not expect to have the mistakes of management buried in a Federal Budget of $40-odd billion. It is a system of rigid discipline which develops a sense of responsibility, for it provides an adequate incentive for a wise effort and adequate penalty for an unwise undertaking. It is all these and more, too, but these seem the essential elements.

It is surprisingly strange to me that any man believing in democratic principles would have so little faith in the people and their composite wisdom as to believe that a few planners are competent to manage the entire national economy, or that even if competent men could be found, they should be entrusted with that responsibility. I fear that if government attempts to underwrite the wishes of all of our people, government will succeed only in destroying itself.

"Consumers Are Our Bosses"

We in production and distribution know that the consumers are our bosses and that we fail if we don't do what they want. They won't argue the question with us, they won't try to reform us or to make us do what they want. They will let us go our own way and they will go their way. If we insist on hitting ourselves over the head with our follies, they will still go by on their way.

It never takes a producer or distributor long to learn that he gives the public what it wants or he goes out of business. The producers and distributors have known that this has been a "rule of the game" for centuries. They think the rule is fair. The concern or the man who can give the public what it wants at the price it is willing to pay doesn't see any sense in any plan that, in effect, says to the consumer that he must buy what the producer or distributor wants him to buy and must pay the price demanded. The man who thinks he can make the consumer pay a high price or even buy at all is going to round out his education on this point before very long. Higher costs and higher prices are not going to add to consumption, and unless there is higher consumption there will be too little production to mean reasonably full employment among producers or their sales organizations.

That is what we had in America until certain imported ideas managed to get by the Coast Guard. So let's look at what is offered us to replace it—usually some form of national planning or some steps toward a strongly centralized Federal Government with trimmings of State Socialism.

As to national planning, have you thought what happens when some national planner gets the idea that men in Washington, comprising the government for the moment, can do a better job than the people can do for themselves? Every one who advocates extensive planning on a national basis should first stop to inquire how his plan can be made effective, for a necessary part of any plan is the method for making it effective.

There seems to me only three ways, and they represent sharply conflicting points of view:

First, government can require people to carry out the master plan. That is regimentation, Fascism, or whatever you wish to call it, and we have been fighting a war in opposition to that idea. Wouldn't it be altogether strange if, having fought a war about the idea of a strongly centralized government, we should adopt the idea for ourselves?

The second course would be for the Federal Government to take on the job itself. That is State Socialism and we have been fighting a war in opposition to that idea as well, for State Socialism is regimentation in the end. Wouldn't it be strange if we were to adopt State Socialism for ourselves while we have been fighting the war to destroy it elsewhere in the world? Don't we also recognize that the idea of a strongly centralized Federal Government is contrary to the entire history of our nation and the philosophy of life of our people? Aren't we insisting that our forces occupying enemy countries stamp out these ideas? Are we sincere in insisting that these enemy countries become truly democratic unless we are determined to remain so ourselves? One looking at the recent domestic situation has plenty of ground for being skeptical about our sincerity.

The American Way of Life

The third course is to allow people to do things for themselves—The American Way of Life.

This is not the method which the national planners want to follow. Now let's look at their own method in the field of national economics. These planners of the New Deal spent six years at heavy expense trying to create inflation while their acts were in fact deflationary. Their successors of the Fair Deal are trying now to stop inflation but their acts seem clearly to be in fact inflationary. It seems strange that their plans never seem to work. Could it be that politics in a democracy and economics don't mix? Could it be that the planners have such a faith in their ability as to amount to arrogance? Didn't any of them ever hear the words of Cowper: "When men of judgment creep and feel their way, the positive pronounce without dismay."

It wasn't many years ago that the planners were concerned about the alleged fact that we have a matured economy, with no more frontiers and no more great advances possible. That was the keystone of a whole structure of governmental planning over late years. It was the thinking of men who lacked faith in America. These planners did not foresee the development of the atomic bomb, television, radar, air fleets, guided missiles, and many other developments of recent years. Atomic fission may have opened up great fields for power production over the years ahead. So, wherever there is any trace left of the silly idea of a matured economy, it seems like a good place to use a small atomic bomb.

Another dream of the planners was that prosperity could be created through large spending. These planners didn't know that such spending would destroy more confidence than it created. The imported preachers of the purchasing power theory of economics seem to have found an idea which has taken root in this country, though it didn't take root in their home countries. This theory is one of the greatest political tools when adopted by a demagogue who can gain votes by promising its benefits when he knows that he isn't going to be held to account for the long-range effects of his promises. These promises of immediate benefits will always be more powerful than the threat of distant dangers and far-removed risks. There isn't anything glamorous about balanced budgets, sound money policies, the competitive system, a large volume of production, hard work, or selling one's services at the price the buyer is willing to pay—certainly nothing so glamorous as the guarantee of security for all.

There is plenty of doubt whether government can plan wisely if its controls apply only in the field of production — plenty of doubt whether coercion of business and farmers can be made to work at all—but certainly such a production control cannot be made to work without coercion of the consumers too. Can you imagine the result of any attempt at such an undemocratic process? Can you imagine the political pressures being created by further measures of that kind?

For example, we all believe in stabilizing farm income to some degree, certainly enough to avoid undue hardships. We therefore don't object to the effect of that policy on consumers as long as it is kept within fair limits. But do take note of the efforts to give the appearance of not passing the cost of the program along to the consumers. It's far easier to have the government appear to absorb the cost and conveniently overlook the source of the government's income—the taxpayers. That appears to avoid the problem or, at least, to defer it until after elections.

With all the maladjustments in the economy—the aftermath of the war and its shortages—the government has shown it cannot force adjustments downward in any part of the economy, and it seldom steps aside to permit the natural processes to bring about such adjustments. For the same reason it cannot stop further and greater maladjustments. The result is definite pressure strongly favoring inflation — though the planners are far from admitting the fact.

National Interest vs. Pressure Groups

It is time to ascertain what is in the national interest, and to stop yielding to class and territorial pressures. The granting of an advantage to one pressure group only becomes the basis for more demands by every other group, equally right in demanding equal consideration from government, and, in fact, becomes the basis for further demands by the same group. Appeasements in the economic field do not appease any more than they did at Munich. The operation of these pressure groups can only create an artificial topsy-turvy situation that will destroy all of the plans of government and may go even further to undermine our whole economy.

As long as pressure groups are allowed to feed at the public trough, their pressures will create instability in public policy, and the resulting uncertainties will hamper all long-range planning by industry and individuals. Some may think that the government should step in when private planning has not produced as many jobs as somebody wishes. My difficulty in accepting this idea is that whenever the government steps in it weakens private enterprise and, in the end, the process destroys private enterprise. If that course is right in a genuine emergency, why must we always be facing such an emergency?

These pressure groups exist because we have gotten to think of ourselves only as elements in the production process. We fail to think of ourselves as consumers. It is only as consumers that we are a united people. Our interests as consumers are identical. That should be a clue to the field of government, the field where it can serve the interests of all the people.

It's the same inability of government to make or permit adjustments downward that creates the problem of governmental high operating costs, with the resulting Federal deficits. Since the Hoover Report was made public no one needs further proof that government is wasteful in its operations, and yet little is done about it for fear that unemployment of unneeded workers might bring on a depression. Not only is little thought given to reduction in Federal spending but seemingly as little to holding expenditures at their present level. The alleged justification is the desire to avoid fluctuations in the economy.

The very fact that the economy is free and progressive and prosperous makes it tend to fluctuate —in a word, to be somewhat unstable. Why? Because it is free and competitive—because its behavior is the result of millions of daily independent decisions—because it is a money economy and individuals and businesses are free to decide what they will do with their money. All the individual decisions that determine the action of the economy are influenced by common information, beliefs and expectations, which expose the economy to waves of optimism or pessimism. The only alternative is the Russian plan, and no one wants that foreign idea imported. We have an ample supply of such ideas today.

Besides monetary and fiscal policies many other factors must play a part in strengthening our economy: wage-price policies, the structure of markets for labor and goods, agricultural policy, foreign trade and international finance, the construction industry, savings-investment institutions, labor and business policies.

Market, a Key Economic Institution

It must be remembered, however, that the *key economic institution of a free society is the market.* This does not refer only to highly organized trading as in the stock market or the grain exchanges. It includes all the channels through which people buy and sell to each other.

We in this country have found that the market—despite its admitted imperfections — operates with an efficiency which has never been equalled by any other system, and that the decentralization in decision-making permitted by the market prevents the development of great concentration of economic power. Unless consumers are to be controlled, producers and distributors must serve the wants of the consumer. We each make our own decision in the market and our individual decision helps to produce the over-all result in the economy.

We need to teach the value of the market process in our schools. We need to recognize that it is the democratic way of doing business and of conducting our affairs. We need also to recognize that the more we understand about it, the better we can use it as a strengthening factor in our country's economy.

I do not mean to imply that the market can operate without a framework of rules. We in this free society, of course, oppose artificial controls of wages, prices, production or distribution — except in clear cases of national emergency. But we do recognize the need to protect the market process with appropriate laws. Contract and property rights, for instance. Rules to prevent monopoly, and to raise standards of health, safety, and to prevent falsification in weights and measures and content of products, and so on, are other examples.

In this field of regulations, particularly those affecting business, we find the same tugs-of-war. We believe in the antitrust laws as we understand them, but no one knows what our national objectives really are. Business is in a quandary as to what the laws really mean, and we see an active Department of Justice trying to extend all previous concepts of the law. As a nation, we seem to want efficiency in business, but at the same time we don't want to hurt the inefficient. The case against the A & P seems primarily aimed at mere bigness in business, while bigness in government seems overlooked. It is to be noted that there was no serious

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effort to meet the situation through action by Congress. It seemed far easier to attempt to widen the application of the law by court interpretation. That's an example of the search for power by the Executive Branch of our government. Of course the A & P has made the life of an inefficient grocer a lot harder but it has helped the consumer. It has grown through the most democratic process in the world—millions of women giving their daily patronage, a secret daily ballot, on the goods offered and the prices asked. Do we really want competition only when no one is hurt in the process? Isn't it time for Congress to define our objectives?

A slightly different type of case is the uncertainty as to pricing policies relating to basing points. That need not be more than mentioned here.

Higher Wages and Pensions

Another problem which must be in the minds of any Pittsburgh audience is this recent matter of pensions for steel workers. Here's a board of three men—a creation of the Executive Department—proposing a pension and benefit plan aggregating a cost of $200 a year for workers, or a $12 billion a year cost if all workers are likewise treated—and there is seemingly no reason why they should not be. If $12 billion can be added in such a manner to the costs of annual production in this country, should it not be done only by approval of the people through their Congress? There is no question about the desirability of sound pension plans, but the inflationary effect of such a move to such an extent should be the main consideration at this time. Why do we think we must jump at once to a system of pensions based on ten cents per hour? If we won't create maladjustments by this step, why don't we go much further?

If we are going to continue through a series of wage increases and pension plans as we have done since the war, we are certain to create further inflation just as we have created it in the last few years. It does not make sense for the worker to ask for a pension and then take steps to reduce its value, and yet that is the inevitable result of this kind of action.

This represents a tug-of-war between two conflicting objectives. If current pay increases are the principal objective, its attainment will reduce the buying power of any present pension plan. If increased pension payments are the objective, then current pay is bound to be lessened in its buying power.

On Aug. 12 before the Steel Fact Finding Board, I made these statements:

Every year since 1946 the problem of wages in the steel industry has been raised for consideration. Such of the above arguments as suited the advocates for higher wages were used as each occasion demanded, and the other arguments were not even considered. There has been no attempt to weigh all the above arguments on every occasion, much less to weigh the factors affecting the interests of the other elements of the population. Over the years there has been no set of principles established on a sound, consistent basis by which to judge the fairness of wage rates.

In a period in world history when a strong America is essential to the continuity of our way of life, to risk undermining the entire business structure, and even the national security, for transitory gains to a small portion of the total population is indefensible national policy.

All of these intangible matters lead up to confusion in the minds of businessmen, and it is no wonder the economy is not getting the benefits it would from a condition of business confidence—which rests upon a hope of a profit. We can stop inflation only by increased production and we must develop business confidence to get more production and more efficient production. We need a more helpful attitude toward business which provides the great bulk of our employment.

Taxing Corporation Profits

Let's take a look at the tax treatment of corporate profits and its effect upon the equity capital market. As our corporation equity stocks are selling in the public market at far less than the historical investments they represent—and still further below the present replacement cost of the corporation's assets — hadn't we better cure that situation before we give too much money and effort to building up the industrial strength of other nations?

Business Chary of Government Deficits

These are only a few of the problems in the minds of businessmen. The fact that they exist at all and yet could be so easily settled is disturbing to business confidence in both the short-range and long-range aspects. Business believes that what is good for the country as a whole is also good for business—but it is chary of further Federal deficits caused by governmental excess spending which is not as generative of prosperity as the same money if spent in business. The businessman has some such set of queries as this in his mind:

If American today, with the highet rate of national income in our history, with the highest level of taxes in our history—if, under these conditions, America can't have all it wants in the way of social advances without going into more debt (and our debts are already the highest in history), what is going to happen to America? Stop and think about it. Taxes—the highest in history; national income—the highest; debts—the highest. What would happen to you if you were in that position and you went out and bought more goods than you could pay for?

That is nothing abstract—it is just as simple as I state it. If this country doesn't get to thinking about living within its income, it won't be in any different position than any individual who lives beyond his income. In the end, there is a day of reckoning, and we had better plan soon how to meet it. Up to now we have had no fear of our money. If we get to that point of fear, you and I will want to get a dog and a gun, or a fishing rod, and go back in the hills.

These problems I have mentioned omit reference to the cost of Marshall Plan Aid and National Preparedness, for as long as they are so necessary, we shall have to pay for them and business will gladly pay its share. Both have some short-range benefits to business, but for such benefits alone we should not spend more than is wise. We must trim elsewhere. We must settle down to accepting conditions as they are—for at least some time—and watch developments as the world tackles its problems.

I assume we all start with the conviction that our economy must have the broadest possible democratic basis of understanding—an understanding possessed by ourselves, our business associates, our leaders in labor, government, and on the farm, our students and our teachers. It must necessarily be broad because our freedom is a personal, individual, democratic thing, and we each must understand not only why we are free, but how we can remain free. We must recognize that to be free politically and socially we must also be free economically. We must also recognize that in *working together* on our common problems we achieve strength. In this unity we find our democracy's greatest strength.

Should Not Take Our Economic System for Granted

In our country we have been inclined to take our economic system for granted. Each of us has been concerned with developing his own business or professional success within the framework provided by our system but without much specific regard for the system itself. Sometimes it has seemed as if we didn't have a system as such, though we did glorify individual rights and responsibilities. That was the framework in which we worked. It was the result of the evolutionary process through which our people had passed.

The time has now come, however, for us to organize our thinking around ways and means of strengthening our economy, of knowing what we want to do with it, how we want it to operate, and why we want it to continue. We cannot win this objective merely by making or listening to addresses, making or seeing motion pictures about free enterprise, or by publishing or reading newspaper advertisements about it. We can win it only by personally working over it, discussing issues, analyzing them in relation to the common good, and spreading the results of this work to others.

Emerson never knew the fact of regimentation, the loss of liberty, the fact of a leveling down as well as a leveling up policy when carried out by government, but on this point of the right of men in government to manage the whole economy he used these lines: "I never could believe that Providence had sent a few men into the world ready, booted and spurred, to ride, and millions ready, saddled and bridled, to be ridden."

I think that every man in business owes the obligation to his own conscience, his own company, and his own community, to understand the common sense of this situation and to explain it in its simplest terms We need to spread a knowledge of economic facts and how our free economy works, and we should start with the workers in our own businesses. The need is great, if we are to retain our free system. We in business need not admit we are rightly in the political doghouse. We can tackle the job with courage and determination to face any issue, for nothing in the world can match our system. We must not be on the defensive in talking about it. We need only add a few converts to win in a democracy—we need not win everybody to our way of thinking.

May I invite your attention to a parallel from the lines of Lowell, who said there is no place ten miles square on this globe where a man can live in decency, comfort and security unless the Gospel has gone there first and cleared the way and laid the foundation which made decency and security possible. Just as we have taken for granted the benefits of the Gospel, so we have taken for granted the benefits of the American Way of Life which has provided a standard of living so high that there is no place ten miles square on this globe where a centralized government, either Fascist or Socialist, has been able to do as much for all the people. Our present system needs no justification, for it has produced results matched nowhere else in the world in its entire history. We need not be defensive in our attitude, for no other system stands such inspection.

I would not oppose a change in our system merely from an aversion to change, but I would take a hard look at any new, untried idea so as to be sure that the new idea will work and that it is the best idea that can be found by which to reach the desired goal. An old philosopher once said: "God grant me the serenity to accept those things I cannot change, the courage to change those which I can, and the wisdom to know the difference."

Let me end on a cheerful note which is simply this: The brightest spot I see in the whole economy lies in the capacity and resourcefulness of American corporate management.

Debt Management and Government Bond Outlook

(Continued from page 6)

reserve requirements under emergency legislation were raised above the previous maximum. Under the same legislation, Consumer Credit controls were invoked. Because of the infuence of these monetary actions, the bond market with brief interruptions during this period, remained at close to or at the pegged prices established in December until the fall of last year when, as you recall, considerable temporary doubt existed as to the continuation of the support level of long bonds at or slightly above par; the Federal Reserve Bank at that time being the only buyer of consequence.

Following the election, the bond market rose slightly and in December, the peak of bank loans was reached. With the precipitous decline in bank loans from that point in August of this year and as it became apparent that the Federal Reserve Board intended to deal promptly through monetary measures in an effort to arrest the decline that was taking place in business, policy was reversed and bond prices have continued to rise since that time. Early this year, margin requirements against securities were reduced and regulations governing extension of instalment credit were relaxed. This was followed by a reduction of $1,200 million in reserve requirements of the banking system. In June, with the expiration of the temporary powers of the Federal Reserve Board, an additional $800 million in bank reserves were released; additional reductions took place during the summer.

I cite this brief history of monetary actions to point up the manner in which the monetary authorities endeaver to influence the course of the economy. I intend to discuss this in greater detail later, but I might call your attention in passing to the fact that Federal Reserve policies during this entire period had a pronounced effect on interest rates, but little visible immediate effect on business. However, in gauging the outlook for money rates and bond prices, it is important to remember that Federal Reserve policies have been geared to and directed towards influencing the course of the economy. Theoretically, a declining business trend can be arrested by increasing the availability of bank credit and by bringing pressure to bear on money rates. Conversely, this philosophy holds that boom conditions can be curtailed and reversed by contracting bank credit and by raising money rates. The monetary authorities deal with a deflationary or inflationary situation through one of the several methods I have described or a combination of all; that is by raising or lowering reserve requirements of member banks, by increasing or decreasing the rediscount rate and by buying from or selling to commercial banks government securities for Federal Reserve account.

Process of Controlling Interest Rates

The process of controlling interest rates is a fairly simple one. If the Federal Reserve Board raises reserve requirements of the banks, thereby creating a deficiency in the reserves that the banking system is required to maintain against deposits, this deficiency has to be corrected. The banking system then sells bonds to the Federal Reserve, their being no other willing buyer and if the Federal Reserve drops the price at which it buys the bonds, interest rates rise. The opposite process of lowering rates occurs when the Federal Reserve Board releases reserves in the banking system through reduction of requirements that banks must maintain against their deposits and as the banks seek a medium for employing these additional reserves, the Federal supplies bonds at advancing prices which brings about a reduction in interest rates. This does not, however, affect the supply of credit available in the banking system for other purposes so long as the Federal supplies the banking system with government bonds or sells government bonds to the banking system in an amount sufficient to offset the effects of increases or decreases in reserve requirements. Certainly in the one case it does not, in and of itself, encourage banks to lend or business to borrow and in the other, banks do not call loans merely because rates rise and business is not discouraged from borrowing because it has to pay a slightly higher rate for the money it uses.

It is of great importance to the portfolio manager, however, to remember that the Federal Reserve Board does use the medium of interest rates ostensibly for the purpose of influencing the course of the economy and this fact, more than any other, provides us with the best guide to the outlook for bond prices. Although the Federal Reserve Board recently has acted rather promptly in invoking these measures in the hope of influencing economic trends, there is always some time lag so that ordinarily it is possible to anticipate in some degree at least the prospective movements calculated to ease or firm money rates.

For example, as early as last January there was a clue to Federal Reserve Board thinking in the reduction of margin requirements against securities and as I have pointed out this step was followed by other actions after the decline in bank loans had set in and after it was evident that the economy had turned down. Thus again the best clues to the trend of interest rates are the trend of economic activity, the trend of bank loans and more particularly, the fiscal position of

the government, surplus — or deficitwise.

The Present Situation

In analyzing the present situation, several points should be borne in mind. The first is that the bond market is at a relatively high level within the range that has been established to date as a result of the money moves that have taken place since the first of the year and the economy, temporarily at least, has turned the corner from the low point of the decline that was reached in June; in addition, the trend of bank loans has been mildly upward during the past several weeks. On the other hand, the government has been running in the red since the turn of the fiscal year at the annual rate of about $6 billion.

As to the near term outlook for business, economists generally are agreed that by reason of the present high level and prospective increase in government expenditures for defense purposes, economic and defense aid abroad, business should continue the modest recovery that has been in evidence since June. An additional artificial prop to the economy will come from GI insurance refunds in the amount of $2.8 billion which are scheduled for disbursement early next year. Thus, the near-term outlook for the economy is sufficiently good to warrant the expectation that additional steps to bring about easier money conditions than prevail today will be delayed until there is more evidence than we have at present that the level of the economy will revert to a continuation of the adjustments that set in early in the year and carried through to summer.

Interpreting all of this into terms of the near-term outlook for bond prices, it would appear reasonable to expect little change in the immediate future.

Since management of the debt, interest rates and bond prices are the responsibility of a relatively small group of individuals who, as I have pointed out, have been vested with rather complete authority to carry out their task, I have no better means than you for determining in advance the steps that might be taken to raise or lower the interest rate scale. We all know, however, that regardless of their effectiveness, interest rates will be adapted to the level of the economy and that bond prices can be expected to move within a relatively narrow range in exactly opposite ratio to the direction of business. When I refer to a relatively narrow range it is well to remember that during the war economic conditions were of lesser importance than the requirement to borrow large sums of money at low interest rates. So long as the debt remains at as high or higher level than at present, it is only practical to recognize the strong political requirements of keeping the overall cost of carrying the debt at a reasonable level. This in my opinion is a factor that will tend to prevent any substantial rise in interest rates until such time as there is a prospect of continuing government surpluses sufficient in amount to permit regular and orderly retirement of debt.

Debt Management and the Overall Economy

I would like now to turn to the second phase of my topic which is of much greater importance to you as custodians of the savings of your depositors: that is the effect which debt management exercises on the overall economy and the development of a new philosophy with respect to debt management for it is in this domain that the future worth of the funds entrusted to your care will be determined and I might mention that since 1934 the value of these savings has declined by about 40%.

During the war there could be no question of the desirability of molding Federal Reserve policy to conform to the needs of the Treasury in financing the war, but since the war increasing pressure has developed for restoring to the Federal Reserve Board the degree of independence that it originally was intended to exercise and the question is justifiably raised as to whether the Board should continue to be dominated by Treasury policy.

Originally the announced purpose of the Federal Reserve System at the time of its establishment in 1913 was to provide an elastic currency, facilities to member banks for discounting commercial paper, and to improve the supervision of banking. For some years, and during the period when there was litte government debt held in the banking system, changes in the discount rate represented the manifestation of reserve policy toward the money supply. Over the years, as the debt increased and most particularly since the beginning of the war, central banking functions have been expanded to where they are now described to be regulation of the money supply so that it is neither too large nor too small for maintenance of stable economic progress and the long-run objective of the Federal Reserve System is further described to do its part in fostering monetary and credit conditions favorable to sustaining high employment, stable values and a rising level of consumption.

It is apparent from these descriptions of the functions of the Federal Reserve System that the Board and System have taken on to themselves much broader responsibilities than the Act originally anticipated.

The most effective weapon that has been added to the powers of the Federal Reserve Board in controlling the bond market but at the same time rendering ineffective the announced functions of the System is the "Open Market Operation." This is described as a function that differs essentially from discount operations primarily in that it is undertaken at the initiation of the Federal Reserve System, not at the initiation of the member banks. Of course, we all know that just the reverse has been true and will continue to be true so long as the Federal Reserve Bank controls the level of bond prices through the medium of Open Market purchases and sales, for it is perfectly obvious that the banking system is in a position to create at will through sales of government bonds to the Federal whatever amount of credit they choose to make available for other purposes and at such times as member banks choose to invest reserves in government bonds, the Federal Reserve immediately immobilizes the reserves through making bonds available not at their initiation but at the initiation of the member banks so long as it is wedded to a policy of restricting a price rise as well as a price decline in bonds. The anomaly of this situation is that other actions adopted by the Federal Reserve Board for the purpose of contracting or expanding reserves in the banking system are rendered ineffective by Open Market policy directed primarily toward controlling the level of the bond market. In the latter part of June, a new Central Bank policy was inaugurated when the Federal Open Market Committee Reserve System issued the following statement:

"The Federal Open Market Committee, after consultation with the Treasury, announced today (June 28) that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture, it will be the policy of the Committee to direct purchases, sales, and exchanges of government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the government security market and the confidence of investors in government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased."

I need not tell you that this was a carefully guarded announcement, difficult of interpretation but I think certain conclusions can be drawn from it. In the first place, it must in fairness, be interpreted as a sincere effort toward achieving greater flexibility but I seriously question that it will be successful in restoring a sufficient degree of flexibility to the bond market to accomplish that objective. The timing of the announcement coincided with the beginning of deficit financing on any considerable scale and came at a time when the holdings of the Federal Reserve Bank of intermediate and longer term eligible bonds had been depleted to a point that the Federal was unable to supply the demand of the banking system that had been brought about through release of reserves by reduction of requirements and by a sizable reduction in the volume of bank loans.

Immediately following the June announcement, the bond market rose to new highs from the December, 1947 low point and a short period, the Federal Reserve made no offerings of any securities but when soon confronted with the possibility of an explosive rise in prices without much change in ownership of bonds, the Federal again resorted to the sale of short-term securities as a means of controlling the long term market. Again, the effect of this was to immobilize the bank reserves that the Board had created through reductions in reserve requirements ostensibly for the purpose of encouraging business to borrow.

Dilemma of Federal Reserve Board

The Federal Reserve Board finds itself in a dilemma, on the one hand, endeavoring to control the level of bond prices and on the other, the volume of credit available to the banking system. One is not compatible with the other. There obviously can be no effective control of the volume of credit in the banking system so long as the Federal Reserve Board through the Open Market Committee adheres to a policy of maintaining a fixed pattern of rates within the range that has been established to date. I sympathize with this position and I am sure that the Board is not happy in the paradoxical situation in which it finds itself. The difficulty of abandoning completely a support policy during inflationary periods is that a debt of the size that we have today could easily become unmanageable. Conversely, elimination of a ceiling on government bonds would tend to add impetus to an inflationary movement. At the point at which a reversal of policy was called for the problem of support would be multiplied to the extent that it would be difficult to deal with them effectively. Beyond that, with the large volume of government bonds lodged not only with savings and commercial banks but more particularly with individual investors, it obviously is undesirable to permit too sharp or too wide price swings to take place.

There are, it seems to me, however, some means available for dealing more adeptly with the dilemma. For one thing, the Federal Reserve has a sufficiently large portfolio of ineligible bonds to permit of sales of these in order to restrict price rises in eligible securities for savings banks and insurance companies and other investors, as holders of eligible bonds, have an opportunity to invest at a more favorable rate in ineligible bonds, they would sell to the commercial bank market more of their holdings of eligible securities and thus satisfy some of this demand. Another expedient which has proved effective is to permit greater flexibility in the short-term rate for as short-term rates rise, banks are discouraged from investing in longer bonds for a slight increase in yield. Beyond this, the Treasury frequently has expressed its intention of tailoring securities to meet the needs of investors. The embarrassing position of the Federal Open Market Committee could be alleviated materially if the Treasury would abandon its policy of offering only short securities to the market and make available a larger supply of intermediate bonds on refundings and on new Treasury offerings. This would have the added advantage to the Treasury of permitting a better maturity distribution of the debt than exists today. There obviously is an insufficient amount of bonds available to meet the requirements of the banking system. The scarcity that exists can simply be demonstrated from the fact that a commercial bank, subject to the full 38% corporate tax, can improve its net yield only about ⅝ of 1% by extending from a one year security to a 17 year maturity — the longest government bond available for purchase. Savings banks and insurance companies are somewhat better off in that their tax situation is different and in that there is a more adequate supply of securities available to them but at the same time, rates on these bonds are heavily under the influence of the rates on the small available supply of eligible bonds.

Credit Supply Is Ample

As I have pointed out, the June announcement resulted in nothing more than a sharp increase in long bond prices and a somewhat lower rate on short securities and you will recall that the announcement stated that the action was taken with a view to increasing the supply of funds available in the market to meet the needs of commerce, business and agriculture. For this, I see little justification. There then existed no lack of availability of bank credit to finance business. Actually, business loans had declined in the preceding six months by some $2.8 billion and if the purpose of the action was to bring pressure on lending rates of the banks, I question and I think you will agree that a reduction of ¼ or ½ of 1% affords any inducement to business to borrow or for banks to lend. Business management borrows for expansion when it sees a reasonable chance for profit and that profit is not represented by the ¼ or ½ of 1% reduction in the cost of money. The higher Central Bank rate policy in the late twenties was not a deterrent to continuing speculation in securities and the low rate policy of the thirties did not stimulate business borrowings. The same was true of the experience following the war which I cited earlier. During that period the economy continued to rise until such time as production caught up with demand, and contraction of reserves in the banking system did not arrest the demand for loans and continued extension of credit to sound enterprises.

Unfortunately, the philosophy of debt management is now being extended to include the compensatory economy theory which briefly calls for heavy government expenditures through deficit financing during periods of deflation and pay off of government debt during periods of abnormally high business activity through surplus government revenues. There is only one thing wrong with this philosophy and that is —based on any historical experience, it has no chance for success. For government to borrow and spend is too easy but to contract and deflate too painful to be accepted by the politicians. I submit if it was not possible to balance the budget and provide a surplus for debt retirement during the fiscal year just closed, which included the highest level of peacetime economic activity in history, what prospect is there that the budget ever can be balanced? You will recall that we were all concerned about an uncontrollable inflationary outbreak in the thirties and later, after the removal of OPA price ceilings following the war. At a time when the administration is pressing for adoption of its various spending programs, at a time when domestic and foreign economic and defense aid is increasing at a rapid rate and at a time when labor is demanding increased social benefits and higher wages for shorter hours, it seems to me that we are entirely too complacent about the inflationary base that exists in today's economy.

Compensatory Economy Theory in Effect

There had been some hope in the early part of the year that the war and postwar inflation would be dissipated and that a readjustment to a more realistic level of prices would take place but that hope was short-lived. Even the modest downturn we experienced during that period was not politically popular and in an effort to reverse the trend, the administration immediately embarked on the compensatory economy theory—that is heavy deficit spending. The Federal Reserve System was formed during a period and as a result of shortage of money brought about by an inelastic system. It is quite obvious that the problem today is not one of a shortage of money but a heavy, inflationary oversupply. At a time when the Federal Reserve System and the Treasury in the interests of the economy should be directing their efforts toward contracting the money supply, just the opposite is taking place. The money supply is being further inflated through deficit financing and the Federal Reserve Board is bringing downward pressure on money rates.

The economy bloc in Washington unhappily is in the minority but there are those in government and many more engaged in private business who are conscious of the dangerous trend of economic thinking governing Administration policies. These economy-minded groups are deserving of your vigorous support. There is no single segment of the business world that is more concerned about and more responsible for protecting the savings classes of the country from a further drastic dissipation in the value of their savings than the savings bankers of the country. The only manner in which the danger can be dealt with is through arousing public opinion to the dangers that exist and I urge all of you to devote your efforts in this direction.

A Plea for a National Monetary Commission

(Continued from page 19)

regional banks (with their 24 branches) each has its own board of directors, two-thirds of whom are elected by the stockholders, the member banks, and one-third appointed by the Board of Governors. Only three of these may be bankers; the others represent the business and agricultural interests of the community.

Federal Reserve System policies are determined by the Board of Governors, a public body, and by the Reserve banks. In certain fields, for example the determination of legal reserve ratios, the policy decision rests solely with the Board of Governors, within the limits set by Congress. On the other hand, policy governing open market operations—the purchase of government securities to increase the volume of bank reserves, and their sale to reduce bank reserves — is determined by the Federal Open Market Committee, composed of the members of the Board of Governors and five Federal Reserve Bank Presidents serving in rotation. In still other fields, for example, actual business arrangements with individual member banks, the Reserve banks have considerable autonomy. Policy thus is legally made by the Board alone, the banks alone, or by a combination of the two. In practice, of course, the System works pretty much as a unit.

Principal Purpose of Federal Reserve System

Aside from its important but routine services, the principal purpose of the Federal Reserve System is to regulate the supply, availability and cost of money with a view to contributing to the maintenance of a high level of employment, stable values and a rising standard of living. As you can see, that is a very broad objective. Right here I want to make the point that Federal Reserve action alone obviously cannot provide for economic stability. It can, and we in the System believe it should, contribute to the best of its ability to that objective.

To influence the supply, availability and cost of money the Federal Reserve depends mainly on its ability to increase or decrease bank reserves. Now I come to the most difficult part of my talk, or of any talk or article about money —the part bank reserves play in the contraction or expansion of the money supply.

In today's complex economy even the term money is not defined in simple, universal language. In earlier figures I lumped currency in circulation and bank deposits together and called the total our money supply. Most people would classify as money the currency and coin held outside the Treasury and the banks—that's $25 billion. But you can convert your demand deposit at the bank to currency merely by signing your name, and 95% of all money settlements are made by check, anyway, so obviously the deposits subject to check have to be counted as part of the money supply. That's $82 billion more—or $107 billion. You might draw the line here, but there's another $58 billion or so in savings accounts which can be converted into currency or checking accounts without much trouble, and some would think of that as money, too—bringing the supply to $165 billion. Then there are $56 billion in savings bonds outstanding, redeemable on demand. Are they money? Let's stop before we get that far.

On June 30 this year, then, the rough total of bank deposits and currency was $165 billion; 10 years ago on that day, the total was $60 billion. How did the increase come about? Bank loans and investments increased $83 billion in that decade, from $50 billion to $133 billion, mostly in U. S. Government securities. Federal Reserve Bank holdings of government securities increased more than $20 billion in the decade, from the $2½ billion owned in 1939. The answer lies in that combined total increase of over $100 billion in debt owed to the private banks and the Reserve banks, mostly by the government.

The Function of Bank Reserves

Deposits are created as bank credit expands, as loans and investments by banks increase. Deposits are erased as bank credit contracts, as their loans and investments shrink. The growth of deposits is made possible by the availability of reserves to the banking system for loans and investment; conversely the contraction of deposits may be caused by the withdrawal of reserves.

The reserves which made possible the wartime expansion of bank credit, of the money supply, came partly from the big gold inflow which continued through the 'thirties until the war checked it, but mostly from deliberate Federal Reserve policy to keep the banks supplied with reserves in order that they might be in position to finance the war to the extent not covered by taxation and by bond sales to private investors.

That was deliberate national policy, implemented through the Federal Reserve. Then, as always when attempting to regulate the supply, availability and cost of money, the Federal Reserve had to depend chiefly on its ability to work with bank reserves, which constitute the legally-required basis of bank credit or money. Here is how it operates: each Federal Reserve member bank in the United States holds a certain proportion of its deposits as a legal reserve with its Federal Reserve Bank. This legally-required fractional reserve system which we have in effect in this nation means that total bank credit, that is total loans and investments of banks, can be expanded to a point several times the amount of the reserve required but cannot go beyond that point unless new reserves become available. Currently, deposits can expand to about seven times the amount of reserves held by the banking system as a whole. It is a little complicated to trace this process exactly so I ask you merely to accept my statements as true; actual demonstration would require too much time.

System action to influence the volume of bank reserves is along two lines. First, the Reserve authorities have the power to change the legally-required reserve ratio within a range from its minimum legal limit to twice that minmium. In other words, it can change the legal multiple for deposit expansion. Given the same volume of reserves, a legal reserve ratio of 20% obviously will support only half as large deposits as one of 10%.

The other major way in which the System influences the supply of money is through changing the actual amount of reserves available to the banking system. It does this mainly by buying or selling government securities in the open market—this is called the "open market operations." When the System buys government securities, it adds to bank reserves; when it sells government securities, it contracts bank reserves. Or it can make direct credit available to its member banks by lending on the assets member banks bring in to it. When member banks borrow, the funds are placed in their reserve accounts and thus increase reserves. When the borrowings are repaid, the banks draw on their reserve accounts which thus are reduced.

In the early days of the System when banks borrowed heavily at Federal Reserve Banks to obtain reserves, the rate of interest they were charged, called the discount rate, was an active and important instrument of central bank action. Today, when bank borrowings from the Reserve banks are occasional and relatively small, the discount rate is much less important.

Traditionally a central bank works as follows: If the general economic situation seems to be inflationary—in other words, if the supply of money seems to be outrunning the supply of goods and services immediately available — the central bank wishes to see that supply of money contracted. Therefore, it attempts to put pressure on bank reserves. It attempts to reduce their volume by selling government securities, by making it more difficult for banks to borrow, or it attempts to raise reserve ratios so that credit can expand by a smaller amount on the same volume of reserves. This action of contracting bank reserves tends to make interest rates rise and thus deter prospective borrowers from borrowing. It puts on the brakes. It attempts to hold some of the inflationary forces in check.

In a deflationary situation the System attempts to add to the volume of bank reserves to make money easier and therefore to make it more attractive to borrow to start new ventures and increase inventories and so on. System restrictive action tends to be more directly effective than System expansionary action. As former Chairman Eccles of the Federal Reserve Board put it once: "You can pull a piece of string back but you can't push it where you want it to go." And another point —since Federal Reserve action normally runs counter to the way the economy is running, the central bank tends to be unpopular all of the time. It is always going against the stream. When times are booming, its policy is to tighten down and hold the boom to reasonable proportions as far as monetary action can affect it. That obviously is not the best course if one is looking for popularity.

Must Meet Changing Economic Conditions

Successful institutions must change to meet changing economic conditions. Since the outbreak of war, because of special circumstances, the Federal Reserve System has not been in position to change as much as it would like to meet the very sharply changed economic conditions. And because these new, war-induced conditions found the System unequipped to deal adequately with the changed economic problems, the System has attempted for the past few years to get a Congressional reappraisal of banking legislation in general and the Federal Reserve System in particular. It has asked for some extension of its powers in the light of new problems ahead. But most of all it would like to see the citizens of this country, non-bankers as well as bankers, start thinking about these things.

Today we face a situation different from that of a year ago. The economy is no longer in an inflationary phase. Federal Reserve System powers to deal with deflation are much more adequate than they were 20 years ago when the depression of the '30s set in. We can provide funds when needed by the market. A major deficiency of the banking system that aggravated business conditions in the past thus no longer exists. We have virtually unlimited means of supplying the market with additional reserves. On the basis of existing legal requirements we could more than double our outstanding note and deposit liabilities. We also can lend to banks on many more classes of assets than was possible before 1935. We also can reduce reserve requirements substantially if that should prove to be necessary. But sometime in the future should inflationary conditions resume, the System will find itself back in the strait-jacket which it occupied recently—impotent to take effective action to control monetary inflation because of its responsibility for stability in the government bond market. I wish I had time to spell that out more clearly.

I think the main thing that kept us out of trouble in the past was the horse sense and self-restraint of the American people. We didn't reach the point where we were ready to throw the dollar overboard in a speculative scramble for goods. As individuals we still exhibit that restraint. Collectively, acting through government, we aren't doing so well. Let's take a look at the record.

With production, employment and national income at an extremely high peacetime level, highest on record except when compared with 1948, the central government is spending more than it collects in taxes. In other words, we are adding to our national debt when we ought to be paying it off. Item by item, the purposes that call for the staggering total of public expenditures have their strong supporters, but we can't afford them all—not unless we are ready to pay a lot more in taxes than we are paying.

Not Time to Add to Public Debt

This is no time to be adding to the pubilc debt. If we can't make ends meet now, what resistance can we possibly oppose to far greater deficits under less favorable economic conditions than now? If the public debt is going to be endlessly a one-way street, it is time to take inventory of the traffic department.

We need a thorough-going reappraisal of the new set of circumstances that have evolved in the monetary field in the past few years. If a central bank and related agencies are to be effective they must be prepared to deal with both deflationary and inflationary situations. A thoughtful and impartial national monetary commission could consider the current and prospective problems against the background of the world today and help point the way for effective future action.

The problem of guiding the country's economic forces with a view to stability of output and employment is a continuing and ever changing one. Wisdom, foresight and authority to act when action is called for, are required to carry out this objective. Above all else, an informed body of public opinion is needed. Most people, I am convinced, take money for granted, uninformed as to its nature and unconcerned as to its dangers. The problems in this field are not easy to discuss simply, certainly not in a 25-minute luncheon talk, and if I have succeeded only in confusing you, that may be good, in a way, if it points up the great contribution which a thorough and impartial study could make, if it led people to study and think about the subject. No matter what else a national monetary study in 1950 by an impartial and competent commission might give us, it would be worthwhile if it only threw light upon an area which to most of us is hopelessly dark and confused. Until more and more people — thoughtful, well-informed citizens such as the delegates in convention here this week — can be brought to understand some of these essentially dull but very important economic facts, central monetary authorities cannot perform an adequate job. Unless we move soon to take stock and make the necessary repairs, we will continue to be like the lazy man with the leaky roof — when the weather is nice the roof doesn't need fixing, and when the storms hit, he can't get out to fix it.

Coming Rebirth of The Incentive System

(Continued from page 17)

ments and discount rates, and (3) restraining consumer credit by limiting the terms and kinds of articles that could be bought. The first relaxation of these restrictions occurred when the government reduced margins on security purchases and this was followed over the course of the first several months of 1949 by lower discount rates and lower bank reserve requirements and relinquishment of credit controls, until on June 30 credit controls expired.

Our domestic economy continued to go through its postwar adjustment. The hazard of a business recession became quite apparent and then business started to go "on the skids" in April, May, June and July of this year. During this time the controls above mentioned were relaxed and optimistic statements were issued by government and Federal Reserve officials. Reference is made to Mr. McCabe's (Chairman of the Federal Reserve Board) statement of late Spring, in which he indicated a much friendlier attitude toward business. This was closely followed by President Truman's statement say that he was "bullish" on the economy.

The U. S. Government ended its fiscal year on June 30, 1949 with a sizable deficit. The President issued a statement to the effect that debt reduction and balanced budgets could not continue in a declining national economy. This signalized a return of a government policy of spending in excess of receipts, which policy has continued to date as exemplified by figures from the U. S. Treasury Statement as of Oct. 3, 1949.

The Treasury reported net receipts since June 30, 1949 to Oct. 3, 1949 of $9,304,000,000 compared to $9,182,000,000 in the same period of previous fiscal year, so that the government took in $120 million more than last year. It spent in the current fiscal year period $11,122,000,000 compared to $8,657,000 000 in the same period last fiscal year, an increase of $2,465,000,000. This huge increase of expenditures in such a short period has resulted in a deficit for this period of $1,818,000,000 against a surplus of $525,000,000 in the same period of the last fiscal year, or a difference of $2,-343,000,000. Furthermore, as of Oct. 3, 1949, government debt amounted to 256½ billion compared to $252 billion a year ago. These figures indicated that the government is spending at a much higher rate than it did last year and further, that it is building up a deficit that is likely to be very sizable.

Favorable Tax Revision

Although Mr. Truman indicated that a balanced budget could not be expected, there no doubt will be a cry for more taxes from the Congress next year. This should be regarded seriously if it were not for the fact that the action of Congress this year has shown its reluctance to increase either corporate or personal taxes since the leading members of the taxing bodies are convinced that such increased taxes would injure business, and that such business injury would result in lower government revenues even though tax rates were increased. On the other hand, the New York Stock Exchange has presented its economists' projections on what a re-

duction in the capital gains tax would mean in the form of increased securities transactions and hence increased taxes to the government. It is reported that these contentions have been explored by economists and statisticians in the Administration and in the Senate and House and that they have been substantially confirmed.

The capital gains tax amended would be a big pocket for the government to dip into. Most important it is the best pocket for it to dip into because a reduction of the capital gains tax to say 10% from 25% and a change in the term of the holding to three months instead of six months would so increase the incentive to venture that the whole domestic economy would be greatly invigorated not only in the securities market but in all kinds of business. In truth, it would be the rebirth of the venture capital system, or what so many people refer to as the return to the good old American way, and would thereby restore an aggressive philosophy to our economy.

To believe that all of these things will be accomplished in an ideal manner is much too optimistic. However, some good progress will be made toward them and the public psychology will reflect anticipation of this progress with a greatly improved tone of confidence.

Conclusion

In conclusion, the capitalist world's commerce is on the verge of being rehabilitated and domestically the incentive system will probably be reborn. These fundamental factors to the economy can, and probably will, outweigh the temporary disturbing economic problems that no doubt will arise over the next few years. The current immense buying power within this country, fortified by tremendous liquid savings and government supports, indicate a tremendous potential force once the incentive system is restored.

In the meantime, the Treasury deficit indicates inflation, the increase in the debt indicates inflation, the increase so far this year of $4 billion in the total loans and investments of the reporting member banks of the Federal Reserve Bank indicates inflation, and the further gains by labor indicates inflation. This inflation will not necessarily demonstrate itself in higher commodity prices, but will be felt in the financial business and should be reflected, as it usually has been, in higher prices for common stocks.

The rebirth of the incentive system is in the immediate offing and together with the correction going on in world finances, the combined effect can be a dynamic economy—domestic and throughout the capitalistic world.

With Wm. Van de Carr

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — W. R. Gaynor has joined the staff of Wm. Van de Carr, 118 South Beverly Drive.

With Crowell, Weedon Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Fred K. Williams is now affiliated with Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with G. Brashears & Company.

Gross, Rogers Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Walter D. Ogden has been added to the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange Mr. Ogden was previously with G. Brashears & Company.

The State of Trade and Industry

(Continued from page 5)

been cut in half but the other two producers, Permanente and Reynolds, which account for a little over 50% of American aluminum capacity, are still operating. With material also available from Canada, this means that it will be some time before the aluminum shoe pinches, the magazine observes.

The mills are still receiving orders for steel with the volume at about the same level as it was before the strike. Ordering by steel buyers is on the theory that when production is resumed the mills will schedule and produce all the old orders first and then enter and quote shipping dates on orders received since the strike started. On this basis, most orders placed since Oct. 1 would not be shipped until mid or late January, the trade paper states.

Unless the strike lasts long enough to cripple business, the distribution of steel on a quota basis will be here for some time, "The Iron Age" points out. The warehouses and the few steel mills still operating are using quotas now; otherwise they might leave some of their best customers high and dry.

On steel sheets the industry is now as much as two months behind at the pre-strike demand level. Before the end of September a number of the big mills fell as much as a month behind on promises. Part of this loss came from off-grade coke, the three-day coal mine work week was blamed. Unless the coal strike ends before the steelworkers return, more of the same production problems are ahead.

The iron and steel scrap market is generally quiet, concludes "The Iron Age," with no outstanding price weakness evident in steel making grades though a few more weeks of mill idleness may bring some price testing.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 9.3% of capacity for the week beginning Oct. 17, 1949, unchanged from the preceding week.

This week's operating rate is equivalent to 172,000 tons of steel ingots and castings for the entire industry. A month ago the rate was 86.2% and production amounted to 1,589,100 tons; a year ago it stood at 99.1% and 1,786,300 tons, and for the average week in 1940, highest prewar year at 1,281,210 tons.

CARLOADINGS AFFECTED BY WIDESPREAD COAL AND STEEL STRIKES RECEDE FURTHER IN LATEST WEEK

Loadings of revenue freight for the week ended Oct. 8, 1949, totaled 574,228 cars, according to the Association of American Railroads. This was a decrease of 83,900 cars, or 12.7% below the preceding week. It represented a decrease of 317,423 cars, or 35.6% below the corresponding week in 1948, and a decrease of 382,634 cars, or 40% under the similar period in 1947.

Widespread strikes in the coal and steel industries adversely affected loadings.

ELECTRIC PRODUCTION HOLDS BELOW LAST YEAR'S LEVEL

Electrical production for the second time since the week of Aug. 3, 1946 showed a decrease when compared with the corresponding period in 1948. The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 15 was estimated at 5,480,735,000 kwh., according to the Edison Electric Institute. This represented an increase of 30,838,000 kwh. above the preceding week, 1,295,000 kwh. lower than the figure reported for the week ended Oct. 16, 1948, but 534,645,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT OFF SLIGHTLY THE LAST WEEK

According to "Ward's Automotive Reports" for the past week, motor vehicle production of the United States and Canada dropped to an estimated 147,823 units from 148,443 units (revised) in the previous period.

If the steel strike continues for another week, some unemployment in the automotive industry may result soon, the report warned. At least one producer is nearing the end of its supplies of extra-wide steel sheets used for roofs, and other cold rolled sheet specifications, the agency said.

The total output for the current week was made up of 121,614 cars and 20,281 trucks built in the U. S. and 4,133 cars and 1,795 trucks in Canada.

Output a year ago was 123,185 units and, in the like period of 1941, 85,600 units.

Production for the year to date is estimated at 4,207,517 cars and 952,488 trucks in the U. S. and 149,572 cars and 81,700 trucks in Canada.

BUSINESS FAILURES LOWER IN PAST WEEK

Commercial and industrial failures declined to 172 in the week ended Oct. 13 from 182 in the preceding week, Dun & Bradstreet, Inc., reports. Almost wice as many casualties occurred as in the comparable week of 1948, when 94 concerns failed; nearly three times as many succumbed as in the comparable 1947 week. However, failures remained considerably below the prewar total of 237 which occurred in the similar week of 1939.

Casualties involving liabilities of $5,000 or more decreased to 130 from 145, but exceeded the 81 of this size reported a year ago. Concerns failing with liabilities under $5,000 increased to 42 from 37 and were about three times as numerous as last year.

All industry had declines in failures the past week except retail trade which rose to 87 from 78 the week before. In the like week a year ago 35 retailers succumbed.

The Middle Atlantic, Pacific, East South Central and West South Central States failures were down, while in four regions, the New England, East North Central, West North Central and Mountain States, increases were reported during the week. An increase over a year ago prevailed in nearly all regions; it was slight in the Pacific States, while the Mountain States had fewer casualties than in 1948.

WHOLESALE FOOD PRICE INDEX ESTABLISHES FURTHER NEW THREE-YEAR LOW

Downward pressure in foodstuffs continued last week and the wholesale food price index, compiled by Dun & Bradstreet, Inc., fell 1.4% to $5.57 on Oct. 11, from $5.65 a week previous. Marking a new three-year low, the current figure represents a drop of 24.3% from the all-time high of $7.36 recorded on July 13, 1948, and a decline of 14.0% from the comparable 1948 index of $6.48.

WHOLESALE COMMODITY PRICE INDEX TOUCHES LOWEST LEVEL IN OVER A MONTH THE PAST WEEK

Reflecting declines in prices of some metals and foods, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., touched the lowest level in over a month last week. The index closed at 241.94 on Oct. 11, compared with 244.69 a week previous, and with 274.05 on the corresponding date a year ago.

Grain markets were somewhat unsettled last week, reflecting in part, uncertainties over farm legislation.

Government purchases of wheat were in good volume and mill demand was fairly active. Offerings of corn were smaller and prices held firm most of the period before reacting in the latter part of the week.

There was some pick-up in export flour sales but domestic flour bookings again were very small with demand restricted to current and nearby needs. Cocoa prices scored moderate advances aided by scarcity of offerings from primary markets. Trading in the spot market was light and mostly for nearby needs. The advance in coffee prices appeared to be checked for a time last week, but the market recovered and closed with a net rise of about 2 cents a pound.

There was a sharp slump in hogs early last week, resulting in lowest prices since OPA days. Subsequently values levelled off and held fairly steady for the rest of the period.

The cattle market was a mixed affair. Lower grades of steers and heifers showed marked weakness while choice fed steers continued strong and equalled the previous week's 1949 top of $35.50 per hundred pounds. Sheep and lambs met considerable buyer resistance and sold sharply lower for the week.

Spot cotton prices were comparatively steady the past week at levels slightly above the average loan rate.

Seasonal activity featured spot markets with total sales in the ten spot markets reaching 488,200 bales in the latest week, against 485,000 bales the previous week and 316,200 in the corresponding week a year ago. There was some improvement in export demand but sales volume was relatively small. Mill buying increased for both nearby and forward delivery, reflecting short covering in the spot month and hedging operations against commitments into the first quarter of next year.

Contrary to trade expectations, the Oct. 1 report of the Department of Agriculture indicated a total of production of 15,446,000 bales of cotton for this year, or a rise of 503,000 bales above the Sept. 1 forecast.

RETAIL AND WHOLESALE TRADE MODERATELY UNDER LIKE WEEK OF 1948

Unfavorable weather and unsettled labor conditions combined to affect adversely retail trade in the period ended on Wednesday of last week. Despite many aggressive promotions, shoppers bought slightly less than in the preceding week and aggregate dollar volume continued to be moderately below that of a year ago, Dun & Bradstreet, Inc., currently reports in its summary of trade.

Traditional Columbus Day promotions of women's winter apparel evoked a moderate response as unseasonably warm weather prevailed in some parts. There was a slight rise in the demand for women's sportswear and shoes. Handbags and other accessories were very popular. The sales volume of men's clothing remained restricted, though purchasing of haberdashery was steady and high.

Retail food stores sold about as much as in the preceding week with total unit volume about even with that of a year ago.

The consumer demand for meat continued at a high level with inexpensive cuts sought by many shoppers. An increased volume of dairy foods was sold. Housewives bought less fresh fruit and vegetables than in the previous week. The retail volume of canned goods and pantry staples continued to be large.

Retail purchasing of furniture and household goods decreased slightly last week and continued to be moderately below that of the comparable 1948 level. Among home furnishings there remained a high demand for television sets, incidental furniture, bedding and low-priced kitchenware.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 4 to 8% below that of a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England, South and Midwest —5 to —9; East —4 to —8; Northwest and Southwest —3 to —7 and Pacific Coast —6 to —9.

The aggregate demand for wholesale merchandise increased slightly in the past week. Dollar volume was fractionally below the level for the similar period a year ago. The proportion of long-term bookings to spot orders rose noticeably in many items and some manufacturers expressed concern that advance bookings were smaller than in previous years.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 8, 1949, decreased by 12% from the like period of last year. In the preceding week a decrease of 8% was registered below the like week of 1948. For the four weeks ended Oct. 8, 1949, sales registered a decrease of 8% from the corresponding period a year ago and for the year to date a decline of 6%.

Retail trade volume here in New York last week was characterized by sagging tendencies compared with the corresponding week last year. The chief reasons for the decline were unseasonably hot weather and poor demand for cold weather apparel on Columbus Day.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 8, 1949, decreased by 11% from the same period last year. In the preceding week a decrease of 7% (revised) was registered below the similar week of 1948. For the four weeks ended Oct. 8, 1949, a decrease of 8% was reported under that of last year. For the year to date volume decreased by 7%.

NOTE—On another page of this issue the reader will find the most comprehensive coverage of business and industrial statistics showing the latest week, previous week, latest month, previous year, etc., comparisons for determining the week-to-week trends of conditions, by referring to "Indications of Current Business Activity," a regular feature in every Thursday's issue of the "Chronicle."

The Course of Welfare-Statism Abroad

(Continued from page 2)

land but the continent, on the ground that middle class life, as enjoyed in the past, has been undermined—not to forget *quantitative*, definite factors, such as wage-price squeezes, etc. With such a community group as the middle class, qualms over a nation living beyond its means and other so-called "platitudes" are now taking root instead of being scorned as academic. They do feel the cost and they do know that the soaking of the rich is at an end, and that any further cost will be borne by them, in taxes, including excise taxes, and in price rises. This situation has for the first time been clearly clarified for them by this devaluation step which they knew the government took against its will. This devaluation has been an extremely important political step.

Then there was the nettlesome factor to the nationalizers that the public is interested in welfare statism, yes; but in nationalization hardly at all—a very vital point in view of the political importance of the imminent steel nationalization moves. This apathy and even antipathy to nationalization is surprisingly true in labor union circles.

Exemplifying this is a recent vote among railway workers, answering the query put by the government as to whether they found their jobs more or less interesting and satisfying after nationalization. Only 10% found their jobs more interesting; 45% said "no difference"; and 45% said "less interesting." The latter said that they had a feeling of frustration through the remoteness of control and management.

The entire government-labor union relationship, as it is developed, is more interesting and surprising. The very existence of a Labor government combined with nationalization has had the quite unforeseen result of causing a fundamental split within Labor's ranks. The rank and file labor membership is more and more tending to split away from the upper group labor leaders, including the high TUC trade union officials, with the feeling, and increasingly so, that the latter—that is, the upper echelon of their own labor leaders—are in some kind of cahoots with the government. They suspect that their leaders are really disinterested or act in a way as hostile government officials. In the same way, they have a mistrust of the actual government officials of their own Labor Party. In other words, as was certainly unforeseeable, the laboring man feels that he is being "sold out" by a sort of joint coalition between the upper labor officials who are playing ball with the government; and in any event that the Labor government isn't really satisfying his needs.

Such dissatisfaction has recently been epitomized in a practical way by labor's experience with the nationalized railroads, for example, where after protracted negotiations over wage demands the workers finally ended up with no increase whatever. So the union members recognize no change in the managers or the running of the roads since the pre-labor days of 1945.

The extension of social services by the government also is deemed to have undermined the unions. They feel that their authority and their reason-for-being is to a great extent undermined by social services which are being handed out by the government instead of by their own fighting for them.

An example of that is that the unions are definitely coming out against a minimum wage legislated by the government because it undermines their prerogatives and their reason-for-being.

The over-all result is that the Labor government is actually finding it is fighting two wars, one against the Tories, and one against the solid labor front to reestablish its authority.

On the average voter level, including particularly the middle class, there is also disillusionment about raw materials controls, and even the man in the street can discern that in this field things have gone wrong. For example, he knows that the bulk buying of food has run into several major fiascos.

From a more restricted viewpoint there are many other instances where British planning could be seen to have gone off the track. In 1946, the budget was thrown completely off by the unpredictable fuel crisis, which resulted partly from natural causes and which knocked out all fiscal calculations.

In 1947, the government's economic survey, which is the official embodiment of high level planning, was upset by the exchange convertibility trouble and resulted in marked curtailment of the capital investment program.

Now 1949 has seen a startling phase of the fiscally unexpected, in the most water-tight and the most efficient and complex exchange control in the world, which in practice didn't hold because, as so frequently happens, there were unforeseen psychological factors. I am talking about the let-up of devaluation. That is, foreigners as well as domestic citizens disbelieved in the exchange rate that was fixed.

Because of the inflexible exchange rate under planning, there was no room to take this into account and, as always, planning with control was not capable of dealing flexibly with unexpected events.

Devaluation Lessons

So the twofold lesson from devaluation is, it seems to me, (1) that controls don't work, particularly when applied to a far-flung area, as is concerned with sterling, and (2) it brought home to the public the realization of the shortcomings of fiscal control and planning against a free market.

Also there are some important specific major areas of plans which are not working out as expected and which are gradually being so realized by the public. Typical of this is the housing field.

British Housing and also Town and Country Planning exemplify how governments gradually get into complex planning and control and the subsequent difficulty of withdrawing. I said "gradual" because the government's entry into the rent control and housing field is not new.

Under the present laws, everything built since 1939 is fixed with a rental set by the local Rent Tribunals. These Rent Tribunals have complete autocratic discretion in the fixing of rentals, under no stated basis of rules governing the amount of income the landlord should get or rules about rents. They are mostly appointed by the Health Minister and are consequently largely polical boys, of course, with tenant rather than landlord sympathies and generally giving no upping of rents commensurate with the rise in cost; for example, to correlate with the doubling of the price of fuel which has taken place.

The keynote of the home building situation is the licensing system to which every builder is subjected for every individual unit and which is extremely strict and cumbersome. I am talking about the private builder for private enterprise. He is subject to this licensing system, of which there is terrific complaint, both as to the number of licenses and the time it takes to get them through and the political factors entailed.

Building Difficulties

The licensing is limited by the principle followed right down the line, which was enunciated by the minister, Aneurin Bevan who, with a personal arbitrary doctrinal statement, but which is controlling, just laid down the principle that there shall be only one privately built house for every four built by the government—which proportion is rigidly adhered to right down the line. There never has been any explanation as to the why or wherefore of this one-to-four proportion, except as just a product of Mr. Bevan's socialist principles.

Another obstacle to private building is the comparatively new regulation of the so-called development charge. This works out like this: A builder wants to build, say, a block of flats where obsolete houses stood before. While the land may be worth only, say, 10,000 pounds now, it is calculated that the development of the improvement will raise its value to 25,000 pounds, but instead of letting the developer make that difference, even subject to taxes, or having a chance to, he has to pay this 15,000 pounds difference of possible profits in advance to the central authorities as a levy before he gets a license. Surely—heads you win; tails I lose.

There is no ceiling on selling houses, but only on rentals, so what is being built is done for selling and not renting. So that does not help the apartment situation. There is no private building going on now, practically, for rental—only for sale.

So the result is that (1) the private building of houses is stopped by the licensing difficulties, and (2) the private building of apartments is stopped by rent restriction plus the licensing, so there is no private building to speak of at all any more.

The operations by private contractors that were going on to a limited extent until the 1949 legislation was passed, have now practically ceased.

Public building—that is, building under public direction—is much slower than private building, taking an average of 12 months for completion against eight months, partly because of the rigidity of the authorities in passing on necessary changes in material. Every time a contractor wants to make a change, he has to go through all kinds of getting permission from government bureaus to make any kind of minor changes.

Public housing is also suffering because of increased costs and because of the bureaucratic overburdening, which is more expensive. In a 10-year period ending in 1949 the government costs increased by 340% and private building by only 250%.

Town and Country Planning

This leads me to cite the Ministry of Town and Country Planning as another important planning and controlling body. This, too, is not a new idea, except under its present powers. It had genesis in a limited way in 1919, its officials are very careful to explain, but was extended under the MacDonald government in 1932 by the power of refusal to build for any purpose. Previously there were only restrictions versus certain things, which applies in any country.

It was gradually extended during and after the war until the Consolidating Act of 1947 was passed in 1948, bringing everything up to date, introducing nationalization.

Don't forget that under the New Towns Act of 1946, the Minister of Town and Country Planning was given power, if he is satisfied that it is expedient in the national interest for any area of land to be developed as a new town, to make an order designating that area as the site of the proposed new town. The minister was further empowered to establish a corporation under the direction of a chairman, with power to acquire the land and do anything necessary to build the new town. The corporation will be financed by advances from the minister, repayable over such periods and on such terms as might be approved by the Treasurer. Nine towns have already been so designated.

Financing all of this comes from getting direct grants from the Treasury, not through borrowing.

So housing, home and factory, represent a chief field where there is growing public consciousness of abortive results. But the larger question is whether the results of these experiments, coupled with devaluation and all other factors, are leading toward greater or less controls.

Controls, of course, will depend on election results — that is, whether there is to be (1) a sweeping Labor victory, (2) Labor's reelection by a small majority and a possible coalition, or (3) a Conservative victory.

In any of these events, it seems to me that *in the early future* there will be a relaxing of controls, partly following the experience of their not working and partly because of the people's temper, as we have indicated. This will occur both on the domestic and international fronts, a straw in the wind in the latter front being the successive releasing of import controls and at least gestures toward domestic economies.

Over the long pull, however, I believe the trend will be different. Under a *Labor government*, the inflationary effects on prices, and hence on the laboring man, will bring on more severe and enlarged controls, for instance, on prices or wages or both; and in the international fiscal field, particularly with a further deterioration of the sterling position, further export controls will be tried, possibly measures to force changed direction of the economics from sterling to hard currency areas.

In London I had the privilege of asking Mr. Bevan, "If things don't go right, will you be laying on more controls?"

He said, "Of course; that is the socialist principle. If things go wrong, one has to put on more and more controls."

In case of the election of a Conservative or Coalition regime domestically, I would say that only a 25% slice of the welfare state pie would be at stake at all: that is, even the Conservatives would, as in this country, not have the political nerve to take away from the people more than 25% of the benefits that have been given to them by their opponents.

In short, I believe that in England, as well as in all other European countries, there will be a mixed economy, a prediction which I must hedge by a prophecy of real collectivism on a large scale, should Labor unexpectedly be given a renewed mandate by a large majority at the coming election.

Throughout the rest of Europe we are seeing what can be thought of as a split-personality situation; that is, simultaneous trends to the right and left within individual countries, the pull to the left being largely due to the political difficulty under the spoils system of withdrawing benefits from the voters once they have been granted. It is a question of having a-bear-by-the-tail, and not being able to let go.

The Italian and French governments, I am convinced, have been sincerely desirous of maintaining an even keel of freedom and free enterprise, at least until the fall of the Queuille government last week, but while sincerely committed to stop socialistic encroachments and to preserve the free system through their continuing acts, mostly because of their consideration of domestic politics, they are definitely, if unwittingly shoving their people along the road to the welfare state.

It must be realized that the continental countries differ from Britain in this regard, because of the doctrinaire principles of the British Laborites, just as we differ from Britain.

For instance, in France it can be said that she is simultaneously trending to the right politically and to the left economically. The people who are harboring individualism don't realize they actually have the welfare state. They sincerely don't want it in principle, but they do like the benefits and will keep on voting for them.

For example, if General De Gaulle were by any chance to take over, even his brand of third-degree political rightism would be accompanied by an already indicated radical economic program, outperforming Mr. Murray and the CIO.

There are assuredly in France many important rightist factors, in France's split economic personality. For example, in the field of taxation there was a substantial cut effective this year in the levy of income tax on securities, to 18% from 30% in 1943-45. The total tax burden directly and indirectly, of the French citizen is estimated at barely 40% of the Britisher's or American's.

There are many other manifestations of the swing toward freedom in France. The government-decreed double standard of prices on petroleum has been abandoned. The provision for withdrawing the foreigner's capital investment has been liberalized, and the number of government employees on the bureaucracy payroll has been decreased. Government expenses have been stabilized.

But there are still many manifestations of intervention as a spoils state, partly because the government has the bear by the tail, as in other countries, and partly because of political necessity. Nationalization includes the Bank of France, plane manufacturers, the railways, gas and electricity companies, coal mines, a motor car company and four big banks with 55% of the nation's deposits, and the radio broadcasting companies.

Social security payments remain high, at 34 billion francs, practically 25 times what they were in 1948, with sick benefit payments having risen 30-fold. Government employees were a few months ago given a gratuitous bonus—all for considerations of domestic politics.

So I might mention further examples showing that while the French people want to go to the Right and even want to get rid of some Welfare State items, this is very difficult if not impossible for political reasons, once they are on the books.

The Italian Dilemma

In Italy also there is the two-sided situation, ascribed with some justification to the Socialist hand-me-down from the Mussolini regime. Government officials, high and low, as well as the voter in the street, really want free enterprise. They point to the fact that there is no nationalization except in railroads, telegraph, radio, and munitions. But—most significantly—there is broad government participation in business through the medium of what is called the IRI (the equivalent of our RFC), which they got into during the 1933 depression and through which the government

has a stock interest and usually a control on a vast scale, of the banks and many industrial companies. Once in, they find it extremely difficult to withdraw.

Also in Italy they have the Blocco di Lavorare, which is a freezing of man power and the number of workers.

Building in Italy is going on at a tremendous rate because there is no rent control on new buildings, but on old structures there are price and rent controls, so no repairs are being made and many of the nineteenth century buildings seem ready to fall into the Roman Forum.

It is frankly stated by the government officials that the cost of the regular life social security is much too high. It takes 30% of salaries. without worthwhile returns. Yet since its expansion under the Fascist regime little can be done toward its curtailment, because of the political factor.

The Contradictory Elements

Indicative of the contradictory situation is the recent conversation I had there with the Minister of Commerce, Mr. Lombardo, who held forth at great length about the evils of government bureaucracy against business enterprise, yet in the next breath he described government subsidization and price-fixing in sugar, vegetable oil, and even such industrial products as aluminum. So Italy is another country that wants to move in the direction of rightism, but has these socialist measures which it cannot get rid of once they are on the books.

Socialism in Switzerland

Even in Switzerland—that capitalistic oasis in the worldwide socialist desert—we also find evidence of this "double standard." Despite her very low rates of income taxation, considerably lower than ours, despite the decentralization of her government and in spite of her "un-bureaucracy" and her people repeatedly turning down socialization and subsidization proposals when put to popular vote, nevertheless even Switzerland has gone in for rent control and housing subsidies.

After the war rent control was instituted on all living quarters by the central government. Now there is rent control on new as well as old buildings, so in order to encourage new building in the face of rent control, they have had to institute subsidies. This is done on a regional basis. The amount of subsidization varies from canton to canton, there being more subsidization in the industrial centers. This subsidization is sometimes done through the cantons advancing capital to the builders at nominal rates of interest and meeting the cost through taxes, and selling their own obligations. Sometimes the municipalities themselves build, leasing at a loss.

Then also subsidies are needed to supplement the effects of rent control and to support it—that is, to prevent rent control from obstructing new building—so in many cases tax exemption for 25 years is offered by the authorities on the capital invested in construction for rental.

Also in Switzerland there are some agricultural subsidies (although these are not increasing and even have been turned down in referendums). There is also some federal aid toward old-age pensioning.

Somewhat similarly, in the international field the planners are crying for increased productivity and currency convertibility at the same time as they are urging stringent import control and restrictive taxation in their own countries. In other words, you have a mixture of crying for freedom, at the same time as for your own brands of control.

Conclusions

The basic conclusion from all this, it seems to me, is that the countries of Europe have entered into highly mixed states of economy. To a great extent the progress toward socialization has been unwitting, and we can say that it is most difficult for political reasons to take away the benefits of welfare-statism once they have been given.

Apart from the causes and apart from which way the people want to go, and apart from individual political bias, would not the principle surely be uncontrovertible, that the people at least in advance should recognize where they are going, while there is still time under democratic processes to make their free choice? Once the welfare state benefits are on the books, the government or the succeeding regime have a bear-by-the-tail and cannot get rid of them—possibly in any country.

Will Insurance Shares Continue As Prime Investments?

(Continued from page 18)

disability benefits, and insuring selected groups against loss due to drought, hail, etc.

The State insurance programs also have three overall functions:

(1) To insure States against loss of public property by fire, etc., and against loss of funds by burglary, embezzlement, etc.

(2) To provide retirement and other benefits to State employees, teachers, judges, highway employees, etc.

(3) To serve the public directly.

Under the first group are Public Property Insurance, Public Official Bonding Funds and Public Deposit Guaranty Funds.

Group two includes Teachers and State Employees Retirement Funds and other programs providing retirement benefits to special groups of State employees.

Under group three are Hail Insurance, Life Insurance, Bank Guaranty Funds, Workmen's Compensation, Second Injury and Security Funds. All of these provide insurance already available from private insurance sources.

The two Federal programs in group one — Federal Workmen's Compensation and the Civil Service Retirement and Disability — have remained fairly stable over the past 25 or 30 years since their inception, except for liberalization from time to time. Those in group two were developed to meet special wartime needs. In addition to the two life insurance programs now in operation, a Property Insurance program, administered by the War Damage Corporation, was abolished in December, 1947, and a War Shipping Insurance program, administered by the War Shipping Administration, was abolished in 1946. The effect of the life insurance programs has been not only to provide low-cost insurance under extra-hazardous conditions to armed forces personnel and vital protection to their beneficiaries, but it has had the additional effect of making many veterans insurance-conscious and has stimulated the buying of other insurance generally. This is one good side of the picture.

On the other hand, it is also evident that government itself has become increasingly insurance-conscious during the past 15 years, and wherever a need for coverage has been shown, government has been quick to supply that need. Is not this our fault?

If private insurance does its job and does it well, the role of government in insurance should be held to a minimum of interference in employer-employee relationships. Properly regulated, private insurance is already experienced in its several fields and should be given the opportunity to prove that it can properly serve the needs for social and other insurance now being conducted by our governments. If we should prove unequal to this responsibility then, naturally, the governments, State and Federal, would be required to continue such activity. When insurance performances become less than the promise, dissatisfaction ensues and this dissatisfaction results in increased tensions between the employer and employee relationships — which are receiving so much attention today.

Implications of Steel Fact-Finding Board Recommendations

The recent decision of President Truman's Fact-Finding Board of the Steel Industry in suggesting pensions and retirement funds all to be paid by the employer give us further evidence of a trend. The outcome of the so-called "Dollar" meeting at Washington also gives us plenty of food for thought. A further devaluation of our dollar will vitally affect our insurance reserves and insurance payments. A further devaluation of the dollar will bring about another period of inflation and unrest. We have already emerged from one trying period of capacity, so let us lend our efforts to doing all we can to prevent or minimize another such period.

I do not wish to conclude without mentioning a situation very close to my heart, and this is an appeal to the regulatory authorities of our business to cooperate more closely with other government bureaus having to do with licensing of drivers and of eliminating the unfit from further opportunity to drive on the highways.

Only a short time ago Margaret Mitchell, authoress of "Gone With the Wind," was struck down in the streets of her beloved Atlanta by a driver with a record of 22 previous convictions, many of them serious.

With her death, this driver was indicted and will undoubtedly pay a heavy penalty for his transgression, but is he solely responsible for the accident? My answer is "no" for the simple reason that a driver with a record such as his, with 22 offenses, should have been barred from the highways long ago. There is a crying need of a closer cooperation of our insurance regulatory authorities with such enforcement bodies as the American Association of Motor Vehicle Administrators and the International Association of Chiefs of Police, all to the end of spotting the incompetent driver or the driver with impaired sight, hearing, or reflexes, and eliminating him from the highways of this country. One of the chief physical defects of our drivers is the so-called "tunnel" vision driver. In a recent report of the American Association of Motor Vehicle Administrators the statement is made, which is grimly supported by accident statistics, that there are three million "blind" drivers on our highways whose vision is the "tunnel" vision which gives the driver a visual handicap that a horse has when blinders are put on him. Only through more stringent driver license requirements of actual physical examination can such people be spotted through visual tests. There have been too many accidents where drivers have killed people they did not even see.

I am pleased to state that it is the current policy of Massachusetts highway officials to hunt down such repeaters as the one who killed Margaret Mitchell, and they would have had this killer either in jail or ruled off the road before such a tragedy could occur. I mention Massachusetts because of my close contact with it, but there are other states where like action would have been taken. On the other hand, we do know that in the entire field of driver licensing there is much to be desired. Driver licensing should go beyond possible income to a State.

President Truman, at the last President's Highway Safety Conference in June, made a very telling statement when he said in substance: "I am ashamed of my home State of Missouri where anyone can buy a driver's license in a drugstore for 25c, when it takes a fireman 20 years in the cab of a locomotive before he puts his hand on a throttle." Every law enforcement agency and all of the daily newspapers must increase their cooperative efforts to stop this terrible annual slaughter.

I was gratified a year ago to find out the splendid manner in which you agents have taken up this safety movement. If we can only cause our Commissioners and their coordinating agencies to do all they can in their respective States to sponsor laws which will permit only the fit to operate our modern, high-powered cars, then for me, gentlemen, this Convention will mark a very high spot.

This is my swan song as Company President of this Convention. May I direct my last two remarks to our two friends here: first, to the Insurance Commissioners, here as our guests, and secondly, to our agents more essential to us than vice-presidents: we can control the "V.-Ps." but not the Commissioners or agents.

Commissioners—"Give us this day our daily bread"—by which I mean—do not fear to openly state that the insurance business has a proud record but it must depend on the free enterprise system which means profit. Be less prone to order reduced rates immediately upon a flood tide toward profit. Let us take up a little of the slack tide of a period of profit so that we may better combat the hurricane flow tides of loss, and may better measure the mean tides of any business cycle.

And to our friends the agents—I can quote nothing better than a message to our producers by my beloved and honorable sire, written in our house organ over twenty-five years ago. He said, and I quote:

"Competitors we may be, one company with another and agent against agent, but the competition should be purely on a basis of service—not on price. The company whose protection cannot be sold on its merits alone must be lacking, and the agent who cannot sell except by underbidding competitors can hardly measure up as an insurance counsellor and expert in this line."

Thank you, companies, for the honor of being your President for the past two years, and thank you, agents, for your constant cooperation.

All's Well With the Market

(Continued from first page)

waiting to get back into the market when the skies have cleared.

The answer of course is that by the time economic and political events are straightened out sufficiently to satisfy the average man, the security markets have moved sharply forward, and the buying opportunities have disappeared.

This pattern is as old as Wall Street itself and will never change. Something of the sort has been taking place right now. By the time the steel strike is settled, the stock market should be much higher than when the strike threatened. The technical position of the market is stronger now than it was three months ago, when the rise was just beginning. Stocks have been passing from weak into stronger hands and we do not fear any kind of a serious collapse for a long time to come. There will be plenty of time to become concerned—when brokers' loans, for instance, are much higher—when the volume of trading has doubled—and stays that way for months — when everything is "going to 300." Putting it simply—when the public is back in the market **in a big way.**

Having dealt with the cycles and their curious but inexorable repetition of stock market booms and busts, what are the fundamentals on which we base our expectation of higher security prices?

Bullish Fundamentals

Let us take up the matter of currency inflation which has been with us now for so many years that most people accept it as being so without realizing or appraising its impact on our economy. Everybody knows there is so much money around, but because it has been passive rather than active, no one pays any attention to it. Nevertheless it could spring into a powerful force at any time.

Since 1934, we have had an increase of 428% in currency circulation against a 14% increase in population. This is very much greater than the greenback inflation of 1861-1865 or the silver currency inflation of 1878-1894. This potential tremendous inflation within our monetary system thus far for one reason or another never has had a chance to express itself. To put it simply—there has been no velocity—no rapid turnover.

Since 1938 there have been at all times certain imponderables which prevented a full expression of capital to its speculative impulses. First it was the fear of war—then actual war—followed by fear of war again. Then bedevilled by the unanswerable question as to what widespread currency devaluation might do to our economy—a constant crop of strikes — disputes—disorders — all kinds of labor troubles, and last but far from least, a continuous heavy taxation program which exercises a burden on the average investor and a restraint on the average speculator.

Gradually, one by one, we seem to be in the process of eliminating these various fear complexes or reconciling ourselves to a new viewpoint. Far-sighted people looking into the future evidently have been taking securities out of the market in a big way, while the public, largely concerned with the immediate view, has been on the selling side. Fears of a major business recession which dominated the headlines only a year ago have disappeared into thin air.

There is nothing which has a more cumulative or stimulating effect on rising prices than an actual demonstration that the market can go up. Since June of this year it has become increasingly evident that an Administration which since 1933 used Wall Street as the whipping boy, now feels more friendly toward the "money changers in the temple." It may well be that the Fair Deal strategists have embraced an old theory that a rising stock market breeds confidence and stimulates business. After all, let us not lose sight of the 1950 elections—which are only 12 months away.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Dow confirmation of bull market may now lead to intermittent reaction.

Now that the rails have gone through their old highs the arguments about whether or not this represents a full confirmation of the Dow Theory are hot and furious. There are many arguments pro and con.

* * *

For the sake of backing out of an argument I don't want to become involved in, I'll admit that according to the Dow Theory, we are now in a full blown bull market. This belief was apparently widely shared when last Thursday's market became so active that the tape fell behind, piling up a large backlog and finally finished the day with 1,790,000 shares, one of its most active days since last March.

* * *

So now that the belief we are in a bull market is almost universal, any setbacks should logically be described as minor reactions in a bull market. This makes everything nice and cozy. The market is strong; the public is bullish and the signs all point to higher prices.

* * *

What the market doesn't answer is the two important questions: what and when. And it is such questions that should concern the reader more than arguments about bull or bear markets.

* * *

A few weeks ago when things looked bleak and there were more pessimists around, this column forecast a low of approximately 175 and gave a list of stocks to buy at levels approximating that figure. As it developed that figure was not reached and most of the stocks recommended for purchase weren't available.

* * *

That left me a bull without a position; hardly a profitable spot to be in or to boast about. It left me two alternatives: move up all buying levels or buy them at the market. Both were decided against because bitter experience has taught me that chasing stocks is one of the surest ways to financial obliteration.

* * *

But this didn't answer that what and when. The former I'll try to answer now. The latter I don't know the answer to at this writing. The only clue I have is that a widespread bull signal, widely recognized as such, may bring about a reversal that can be as panicky in its implications as the former bull signal was bullish.

* * *

The only stock now held by this column is Denver, Rio Grande. It came into the list between 22 and 23 and is now about 28-29. I think, this one in common with others, will sell off, though I haven't determined how low it should go before a danger point is reached. So my suggestion is to hold on until further advices here.

* * *

I'm deliberately avoiding the mention of other stocks for the time being. I think most of their prices are now too high, and the levels I think they can react to may be too low. So until I can arrive at some satisfactory conclusion, I refer you to the list of stocks I recommended a few weeks ago.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

As We See It

(Continued from first page)

annum cost of many billions of dollars is involved in the current controversy over largesse to the farmers of the nation. What is worse is that many billions will be expended to supply subsidies to the politically powerful agricultural elements in the population no matter who has his way in Congress. We had almost said many billions to buy the farm vote, and had we done so we should not have been wide of the mark. In the 1948 election many, many farmers who had been expected to vote the Republican ticket actually voted for President Truman — so many of them, in fact, that if they did not turn the tide of the election, they at least turned a victory into a rout.

Battling for the Farmer

Since then the battle has been on to keep or to win back these agrarian elements. The arrangement which had been voted by the Republican 80th Congress was in all conscience open-handed enough to suit almost anyone — or at all events anyone except the farmer who has been so pampered in the past decade or two that he must now (or so he thinks) be fed in increasing amounts from the public trough. The fact that almost any of the schemes now being trotted out, most particularly that which has now received the stamp of the Administration, would not only be costly and unfortunate, but quite catastrophic—in the absence of a degree of control over the operations and even the lives of individual farmers which would never have been tolerated for a moment prior to the rise of the New Deal—seems to trouble the agriculturist little if at all. It certainly does not appear to disturb the politician. It may even please this latter gentleman since it would mean a good many more "jobs" on the patronage list.

This lack of concern about regimentation may arise from a general belief that not too much of it will actually occur, notwithstanding any provisions which may be written into the statutes, or it may simply mean that the farmers have counted the costs and have concluded that they would rather have the cash and will "take their chances" on being regimented. But, of course, the fact remains that these programs have no leg (other than a political one) to stand on regardless of regimentation. The people of the nation are simply called upon to pay the man who works a farm a special sort of "tip" once every so often — and it is definitely not a "tip" of ordinary dimentions. How any one—that is, any one who is not blinded by selfish interest in the matter — can convince himself that the country as a whole benefits from such procedures, it is indeed difficult to understand.

And the worst of it is that in legislative halls where such programs are chosen or shaped, about the only consideration of significant weight seems to be how many farm votes this or that program will fetch.

And Social Security, Too

There are many other instances. One of them is the so-called social security bill which would enormously enhance the cost of old age pension schemes—how much no one knows—and, of course, leave them generally compulsory instead of voluntary. If this sort of thing continues to develop, the Lord only knows how much the productive elements in the population may presently be paying out to individuals who choose to "retire" at 65 — an age which appears to have become sacrosanct although until recently it was supposed that men and women of such an age were still, or could be, quite productive. Such programs, however little understood or however much misunderstood, have vote-catching potentialities, or are thought to have. Who else among the political big-wigs cares much about anything else?

Of course, the President has not been able to get very much of his Fair Deal through the 81st Congress, despite the fact that that body wears his own political label, but it is evident enough that he has not given up. On the contrary, it is clear that he is laying careful plans to push the fight next year when all members of the House and a substantial number of Senators must stand for reelection. It is furthermore clear that Capitol Hill is well aware of all this, and is playing its own cards accordingly. There is now every reason to expect next year to be an active and a fighting year in Washington, but the fight will, we fear, not be over what is really best for the country, but what will bring in the largest number of votes.

Reverberations

This miserable political situation, an outgrowth of the New Deal, and particularly an outgrowth of the extension of these same tactics last year with a political success which was as unexpected as it was great, is, of course, creating reverberations in other than strictly political circles. It may well be doubted whether there would be any steel strike today if these and similar political situations had been of a different order. Certainly, Mr. Murray could well say, if it suited his purpose, that he has had an able ally in Washington. Mr. Lewis is unpredictable, but it is certainly a fact that he is more likely to win his current fight by reason of the political atmosphere now existing.

"Modern" politics is not inspiring.

How Advertising Increases Securities Values

(Continued from page 13)

enterprises and have repeatedly expanded their businesses through the simple device of the issue of their own stock alone.

The surviving company has usually been, if not invariably, a relatively heavy advertiser and has made its name or trade-mark well known. These mergers through the issue of stock undoubtedly constitute a trend, which may be expected to continue in the years ahead. The tax factor will, without doubt, continue to serve as a strong incentive.

Certaintly there can be little doubt that the financial power to attract other enterprises into the corporate fold which I shall name was in substantial part due to the advertising investment. It seems apparent that the company which has entrenched its marketing position through the long-term heavy use of advertising will be likely to continue to occupy the commanding position in these acquisitions through stock issuance.

Better-advertised McGraw Electric Company ("Toastmaster") acquired lesser-advertised Manning, Bowman Company and Bersted Manufacturing Company in payment for 153,000 shares of its common stock.

Better-advertised Masonite Corporation acquired lesser-advertised Marsh Wall Products Company in payment for 81,250 shares of its common stock.

Better-advertised Philco Corporation acquired lesser-advertised Electromaster Company in payment for 68,212½ shares of its common stock.

Better-advertised Minnesota Mining & Manufacturing Company, through a subsidiary, acquired lesser-advertised Lee Larson Company in payment for 21,315 shares of its common stock.

Better-advertised Koppers Coke acquired lesser-advertised Freyn Engineering Company in payment for an unannounced number of shares of its common stock.

Better-advertised Textron, Incorporated, acquired lesser-advertised Esmond Mills in payment for 139,508 shares of its preferred stock.

Better-advertised Monsanto Chemical Company acquired lesser-advertised I. F. Laucks, Incorporated, in payment for 26,174 shares of its common stock.

The tax advantage in expansion through stock issuance is clear: (1) The surviving enterprise is not required to use net earnings in cash after taxes—for which earnings the enterprise may have to produce nearly $2.00 before taxes to bring $1.00 down to net; (2) The stockholders of the merged company are not required to pay taxes until they liquidate their stock of the surviving corporation — and then at the lower long-term capital gains rate.

A Well-Avertised Company Is Likely to Have Its Earnings Capitalized at a Higher Rate Than a Comparatively Unknown Company

The equity capital to be obtained by calling common stock, of course, varies greatly with the nature of the specific enterprise, the record of the company, general business conditions, and the likely response of the investing public to the issue.

In times of general prosperity and increasing profits it is possible that the common stocks of the best known companies with good prospects may be sold on a basis which capitalizes their earnings as high as 12 to 16 times.

Common stocks of less well-known companies would have their earnings capitalized at a lower rate. In other words, the investing public would not pay as much per dollar of earnings of a comparatively unknown company as they would pay for a dollar of

earnings of a well-advertised company. Depending largely on the record of the company and general business conditions, the stock of a comparatively unknown company may have its earnings capitalized as low as three to five time—or even lower.

The rate at which a dollar of earnings is capitalized becomes a matter of vital concern to the owners of an enterprise when selling part or all of their equity or when capital is being raised.

For example, let us take the instance of a company with earnings of $100,000 per year. If the current rate of earnings of this company were capitalized at five times earnings, then the owners would realize five times $100,000 or $500,000 for their total equity.

If the owners of this company could make the issue sufficiently attractive to the underwriters to have the same earnings capitalized at a 10 times earnings rate in the same market, the owners would then receive ten times $100,000 or $1,000,000 for their total holdings.

In other words, by increasing the attractiveness of the issue from a capitalized rate of 5 to 10 times earnings the owners receive an additional $500,000. **There has been no increase in earnings.** The difference in capital value depends solely on the rate at which earnings have been capitalized.

Better-Advertised Companies Consistently Have Their Securities More Favorably Regarded by Investors Than Generally Comparable Lesser - Advertised Companies

Here we are dealing in facts which any company treasurer or statistician can prove for himself. I propose to show you the figures of six typical cases to indicate the superior market valuation of the better - advertised company as against a lesser-advertised company in the same field, with which it is compared.

All company comparisons are based on the use of the 10-year period of 1939 to 1948, inclusive. The average price per share for the period was determined by averaging the high and low of the price range each year, adding the average prices, and then dividing by 10. The total earnings per share for the period were added and divided by 10 to determine average earnings per share. The average of the price range for the period was then divided by the average earnings per share for the period to determine the average price-times-earnings ratio. The result is the average sum in dollars which earnings of $1 for the given company commanded in the securities market during the period.

Better - Advertised International Cellucotton Company Versus Lesser - Advertised San - Nap - Pak Manufacturing Company, Superior Market Valuation $30,000,000

On 10-year average, better-advertised International Cellucotton Company has had $1 of its earnings valued at approximately $8.79, and lesser-advertised San-Nap-Pak Manufacturing Company has had $1 of its earnings valued at approximately $4.53.

This favorable margin of $4.26 for each $1 of earnings, on the basis of 1948 earnings for International Cellucotton Company of $7,101,000, is thus indicated to be worth in excess of **$30,000,000** to the stockholders of better-advertised International Cellucotton Company.

Better - Advertised Standard Brands Versus Lesser-Advertised Stokely-Van Camp. Superior Market Valuation $47,000,000

On 10-year average, better-advertised Standard Brands has had $1 of its earnings valued at approximately $10.97, and lesser-advertised Stokely-Van Camp has had $1 of its earnings valued at approximately $4.43.

This favorable margin of $6.53 for each $1 of earnings, on the basis of 1948 earnings for Standard Brands of $7,277,725, is thus indicated to be worth in excess of **$47,000,000** to the stockholders of better - advertised Standard Brands.

Better - Advertised Sherwin - Williams Versus Lesser-Advertised Cook Paint & Varnish. Superior Market Valuation 76,000,000

On 10-year average, better-advertised Sherwin-Williams has had $1 of its earnings valued at approximately $12.80, and lesser-advertised Cook Paint & Varnish has had $1 of its earnings valued at approximately $4.54.

This favorable margin of $8.26 for each $1 of earnings, on the basis of 1948 earnings for Sherwin-Williams of $9,283,800, is thus indicated to be worth in excess of **$76,000,000** to the stockholders of better - advertised Sherwin - Williams.

Better-Advertised Johns Manville Versus Lesser-Advertised Philip Carey. Superior Market Valuation $111,000,000

On 10-year average, better-advertised Johns Manville has had $1 of its earnings valued at approximately $13.07, and lesser-advertised Philip Carey has had $1 of its earnings valued at approximately $5.84.

This favorable margin of $7.23 for each $1 of earnings, on the basis of 1948 earnings for Johns Manville of $15,440,475, is thus indicated to be worth in excess of **$111,000,000** to the stockholders of better-advertised Johns Manville.

Better-Advertised Corn Products Versus Lesser-Advertised A. E. Staley. Superior Market Valuation $145,000,000

On 10-year average, better-advertised Corn Products has had $1 of its earnings valued at approximately $16.25, and lesser-advertised A. E. Staley has had $1 of its earnings valued at approximately $4.75.

This favorable margin of $11.50 for each $1 of earnings, on the basis of 1948 earnings for Corn Products of $12,870,000, is thus indicated to be worth in excess of **$148,000,000** to the stockholders of better-advertised Corn Products.

Better - Advertised International Harvester Versus Lesser-Advertised Oliver Corp. Superior Market Valuation $373,000,000

On 10-year average, better-advertised International Harvester has had $1 of its earnings valued at approximately $13.29, and lesser-advertised Oliver Corp. has had $1 of its earnings valued at approximately $6.59.

This favorable margin of $6.70 for each $1 of earnings, on the basis of 1948 earnings for International Harvester of $55,679,000, is thus indicated to be worth in excess of **$373,000,000** to the stockholders of better - advertised International Harvester Co.

The examples could go on and on:

Better-advertised Iron Fireman Manufacturing Co. vs. lesser-advertised Steel Products Corp.

Better - advertised American Stove Co. vs. lesser-advertised Tappen Stove Co.

Better - advertised Minneapolis-Honeywell vs. lesser-advertised Johnson Service Co.

Better-advertised Zenith Radio vs. lesser-advertised Stromberg Carlson Radio.

Better-advertised Household Finance vs. lesser-advertised Securities Acceptance Corp.

Better - advertised Anheuser - Busch vs. lesser-advertised Falstaff Brewing

Better - advertised William Wrigley Co. vs. lesser-advertised American Chicle Co.

Better-advertised Deere & Co. vs. lesser-advertised Detroit Harvester Co.

Better - advertised General American Transportation Co. vs. lesser-advertised North American Car Co.

Better-advertised Swift & Co. vs. lesser - advertised Morrell Packing Co.

Better-advertised Coca-Cola vs. lesser-advertised Dr. Pepper Bottling.

Better-advertised Dow Chemical vs. lesser-advertised Richardson Co.

Better-advertised General Electric vs. lesser-advertised Wagner Electric.

The Advertising Dollar Delivers to the Individual Enterprise and the Public the Economic Benefit of Multiplication Factor. Advertising to Women Constitutes Excellent Example

Obviously, the primary function of advertising is to sell merchandise at a profit. But it performs an almost equally basic function in establishing value for an enterprise as an institution.

Advertising is an economic force. While performing its indispensable primary function, its power flows over adjacent areas. For this reason the individual enterprise and the public receive the economic benefit of a multiplication factor from every advertising dollar.

A most significant example of this multiplication factor is the emergence in recent years of women as the majority stockholders in numerous leading American enterprises. Women are increasingly becoming important in the securities markets as purchasers in their own right.

Women are also the greatest purchasers of food, clothing and household products. Most advertising is directed to them. Naturally advertising to women has its effect on their interest as investors by heightening their regard and respect in well-advertised companies.

Devaluation and U. S. Exports

(Continued from page 8)

period, stand the chance of being completely nullified.

England's problem has been more or less stressed in this discussion because of its importance in the world picture and because it has felt the impact of postwar maladjustments more than any other one country of the world.

Devaluation Consequences to U. S. Economy

Perhaps we should now endeavor to prognosticate the consequences of devaluation on the economy of the United States, and particularly the effect of devaluation on our export trade. How will it affect our export volume for the nearby period—say six to 12 months—and after that period, what may we expect?

We have discussed the immediate effects of devaluation with a number of our export clients and we cannot find any great amount of order cancellations, although some have occurred. In some instances, shippers to the sterling area were asked to postpone shipments temporarily, but even in these cases requests were received later to ship. However, my belief is that export volume, particularly to sterling area countries and countries in the Latin American area, will decline in the immediate future, and some exporters will feel the impact more than others. Countries in the sterling area will make more determined efforts to buy within the Empire, thus conserving dollar exchange. In the Latin American area, those countries which have not devalued may find a temporary advantage in selling raw materials to devaluing countries and buying certain consumer products at lower prices. I particularly emphasize the words "temporary advantage," as it is likely that prices in devaluing countries will edge up, and if substantial additional orders are received, particularly by England, delivery dates, already long on some lines of merchandise, may have to be extended further. Because devaluation has raised the cost of goods imported from the United States, requests already have been received by some of our friends for a price-cut, and it may be necessary for some exporters to sharpen their pencils and reduce costs to hold business during this present transition period.

Exports out of the United States for the seven-year period 1942 through 1948 averaged yearly over $11.5 billion, and the high point was $14.475 billion in 1947. Notwithstanding the liking and desire abroad for manufactures of United States origin, I seriously doubt that it will be possible for us to maintain the high average for many more years. The high level of U. S. exports already has exhausted or substantially decreased the gold and dollar reserves of many countries of the world and has been maintained only because of dollar loans or grants by the United States. When we reach the bottom of our financial barrel, and the bottom is already in sight, our export volume unquestionably will more or less balance out with the amount of dollars we create by our imports plus dollars created by travelers, service payments, investments, etc. I believe that our export volume eventually will level off to a point somewhat higher than our prewar volume, due to higher prices and our increasing volume of imports, but a great deal depends on the state of our own affairs. Manufacturers in the United States who have a vital interest in export operations will be well advised to watch carefully developments within our own country and their effect on our economy, for it is axiomatic that in times of internal prosperity we import substantially while the reverse is true during a depression period.

The ultimate objective sought by those engaged in international trade is the free movement of goods between countries, which entails principally the elimination of exchange and import restrictions, bilateral agreements, and the free convertibility of world currencies. The devaluation of over-valued currencies is a step in that direction.

In conclusion, may I again take the liberty of quoting from Mr. Black's report at the recent annual meeting of the Fund and the International Bank: "Action by the dollar-deficit countries, however soundly conceived and vigorously executed, will not suffice to solve the dollar problem unless the United States takes complementary measures. For despite a rather remarkable shift in the attitude of the United States in recent years, some of its policies are still basically inconsistent with its position as the great creditor nation of the world. Modifications of these policies, like those that are necessary in Europe, may injure particular groups or interests within this country, but in my judgment such modifications are essential both to restore the health of the world economy and to maintain America's own prosperity."

Bank of America Shs. Offered at $45¼; Blyth Heads Syndicate

One of the largest nationwide investment banking syndicates ever formed to make a secondary offering of a bank stock, is offering to the public today (October 20) 1,199,554 shares of common stock of the Bank of America, National Trust and Savings Association, the world's largest publicly owned bank. Blyth & Co., Inc. is manager of the syndicate, which is comprised of 240 investment banking firms throughout the United States. The stock is being offered to the public at $45.25 per share.

This large block of stock offered publicly represents part of the 2,336,321 shares of Bank of American stock owned by Transamerica Corp. Upon completion of the sale, Transamerica and its wholly owned subsidiaries will own 1,136,767 shares of Bank of America stock, or approximately 11.10% of the 10,238,053 outstanding shares. The remaining 7,901,731 shares of common stock are widely distributed, being held by approximately 150,000 stockholders. The bank has no preferred stock.

Proceeds from the sale of the stock will be used by Transamerica Corp. to liquidate bank loans and to provide additional working capital. Bank of America will not receive any part of the proceeds derived from the sale of this stock.

Bank of America, in terms of total deposits and resources, is the largest bank in the United States. According to published statements of condition of banks as of June 30, 1949, total deposits and resources of Bank of America as of that date were $5,407,671,570 and $5,845,128,669 respectively.

The Bank was organized under the laws of California on Aug. 10, 1904, and began business on Oct. 17, 1904, as a state bank under the name "Bank of Italy." It was organized under the leadership of A. P. Giannini, late founder-chairman. Original capital and surplus was $150,000. Bank of Italy was converted into a national bank on March 1, 1927, at which time the name "Bank of Italy, National Trust and Savings Association" was adopted. The present name was adopted Nov. 1, 1930, when Bank of Italy, National Trust and Savings Association and Bank of America California were consolidated.

The bank is the leader in branch banking in the United States. As of June 30, 1949, it had banking offices established at 536 locations, represented by 520 branches and 16 "facilities" (all at military centers), operating in more than 300 communities throughout the State of California. The bank has more branches than any other bank in the country and is the only statewide bank in California.

The bank paid its first dividend on the common stock in 1905. Since that time dividends have been paid in every year with the single exception of 1932. The current $2.50 dividend rate was established in June, 1948.

Earnings of the bank per common share for the 1939-1948 period, after adjustments for stock dividends, have ranged from $1.55 per share in 1939 to $4.59 per share in 1948. In the six months period ending June 30, 1949, earnings amounted to $3.00 per share.

Capitalization of the bank, according to the last published statement of condition on June 30, 1949, was as follows: Capital (10,238,052 common shares) $127,975,650; surplus, $111,650,000; undivided profits, $57,653,373 and reserves $4,778,310, or a total of $302,057,333.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 23	9.3	9.3	86.2	99.1
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 23	172,000	172,000	1,589,100	1,786,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 8	4,956,150	4,890,800	4,850,550	5,534,800
Crude runs to stills—daily average (bbls.)	Oct. 8	†5,335,000	5,493,000	5,248,000	5,598,000
Gasoline output (bbls.)	Oct. 8	18,107,000	18,381,000	18,270,000	17,045,000
Kerosene output (bbls.)	Oct. 8	2,190,000	1,812,000	1,992,000	2,415,000
Gas, oil, and distillate fuel oil output (bbls.)	Oct. 8	7,131,000	6,962,000	6,455,000	7,131,000
Residual fuel oil output (bbls.)	Oct. 8	7,363,000	7,514,000	7,808,000	8,770,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 8	102,707,000	103,895,000	104,375,000	91,411,000
Kerosene (bbls.) at	Oct. 8	27,548,000	27,196,000	26,608,000	26,946,000
Gas, oil, and distillate fuel oil (bbls.) at	Oct. 8	85,800,000	83,495,000	78,231,000	73,713,000
Residual fuel oil (bbls.) at	Oct. 8	68,222,000	67,955,000	69,161,000	58,997,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 8	§574,228	§658,128	§624,197	891,651
Revenue freight received from connections (number of cars)	Oct. 8	§519,010	§541,204	§522,766	725,330
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 13	$143,697,000	$152,400,000	$156,021,000	$170,174,000
Private construction	Oct. 13	66,327,000	78,779,000	66,175,000	87,937,000
Public construction	Oct. 13	77,370,000	73,621,000	89,846,000	82,237,000
State and municipal	Oct. 13	59,959,000	58,537,000	84,226,000	58,628,000
Federal	Oct. 13	17,411,000	15,084,000	5,620,000	23,609,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 8	2,210,000	1,825,000	5,980,000	12,336,000
Pennsylvania anthracite (tons)	Oct. 8	1,099,000	68,000	788,000	1,190,000
Beehive coke (tons)	Oct. 8	800	*3,700	11,300	153,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 8	297	*302	273	336
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 15	5,480,735	5,449,897	5,579,105	5,482,030
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 13	172	182	185	94
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 11	‡3.705c	3.705c	3.705c	3.720c
Pig iron (per gross ton)	Oct. 11	$45.88	$45.88	$45.88	$46.91
Scrap steel (per gross ton)	Oct. 11	$26.58	$26.92	$25.75	$43.16
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 11	17.325c	17.325c	17.325c	23.200c
Export refinery at	Oct. 11	17.550c	17.550c	17.550c	23.425c
Straits tin (New York) at	Oct. 11	96.000c	96.000c	103.000c	103.000c
Lead (New York) at	Oct. 11	13.750c	14.250c	15.125c	19.500c
Lead (St. Louis) at	Oct. 11	13.550c	14.050c	14.925c	19.300c
Zinc (East St. Louis) at	Oct. 11	9.250c	9.250c	10.000c	15.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 18	103.92	103.92	163.84	100.69
Average corporate	Oct. 18	115.04	115.04	115.04	111.07
Aaa	Oct. 18	120.84	120.84	120.84	116.22
Aa	Oct. 18	119.00	119.00	119.20	114.27
A	Oct. 18	114.27	114.27	114.27	110.34
Baa	Oct. 18	106.56	106.56	106.56	104.31
Railroad Group	Oct. 18	109.42	109.42	109.79	106.74
Public Utilities Group	Oct. 18	116.41	116.41	116.22	112.00
Industrials Group	Oct. 18	119.41	119.41	119.61	115.04
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 18	2.22	2.21	2.22	2.45
Average corporate	Oct. 18	2.90	2.90	2.90	3.11
Aaa	Oct. 18	2.61	2.61	2.61	2.84
Aa	Oct. 18	2.70	2.70	2.69	2.94
A	Oct. 18	2.94	2.94	2.94	3.15
Baa	Oct. 18	3.36	3.36	3.36	3.49
Railroad Group	Oct. 18	3.20	3.20	3.18	3.35
Public Utilities Group	Oct. 18	2.83	2.83	2.84	3.06
Industrials Group	Oct. 18	2.68	2.68	2.67	2.90
MOODY'S COMMODITY INDEX	Oct. 18	335.7	337.6	350.7	406.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 8	282,832	214,138	172,955	214,291
Production (tons)	Oct. 8	201,544	206,834	157,135	192,340
Percentage of activity	Oct. 8	92	94	72	96
Unfilled orders (tons) at	Oct. 8	440,721	360,897	380,248	395,953
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Oct. 14	126.7	127.4	129.6	144.0
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Oct. 1	18,580	18,841	13,231	19,791
Number of shares	Oct. 1	537,896	555,001	368,146	506,045
Dollar value	Oct. 1	$20,753,844	$21,200,032	$14,620,408	$21,923,552
Odd-lot purchases by dealers (customers' sales).					
Number of orders—Customers' total sales	Oct. 1	24,496	24,446	16,132	18,762
Customers' short sales	Oct. 1	119	241	157	178
Customers' other sales	Oct. 1	24,377	24,205	15,975	18,584
Number of shares—Customers' total sales	Oct. 1	637,455	668,105	430,572	525,682
Customers' short sales	Oct. 1	4,640	9,024	5,860	7,552
Customers' other sales	Oct. 1	632,815	659,081	424,712	518,130
Dollar value	Oct. 1	$20,224,962	$21,092,564	$13,494,269	$18,454,276
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 1	274,410	331,540	183,960	161,300
Short sales	Oct. 1	------	------	------	------
Other sales	Oct. 1	274,410	331,540	183,960	161,300
Round-lot purchases by dealers—					
Number of shares	Oct. 1	202,480	188,010	132,670	218,900
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 11	152.1	*152.3	154.6	165.0
Farm products	Oct. 11	160.1	161.3	165.6	184.0
Foods	Oct. 11	160.0	*159.7	165.3	176.7
All commodities other than farm and foods	Oct. 11	145.1	*145.0	145.4	153.4
Textile products	Oct. 11	138.5	138.4	139.6	148.4
Fuel and lighting materials	Oct. 11	131.1	*130.7	130.0	137.3
Metals and metal products	Oct. 11	169.2	*169.2	169.5	172.1
Building materials	Oct. 11	189.4	189.5	189.1	203.8
All other	Oct. 11	116.4	116.7	118.5	135.8
Special indexes—					
Grains	Oct. 11	156.4	159.0	157.6	172.1
Livestock	Oct. 11	195.5	202.8	214.2	244.8
Meats	Oct. 11	217.5	218.4	237.7	252.5
Hides and skins	Oct. 11	207.8	199.9	198.9	203.0

*Revised figure. †Includes 454,000 barrels of foreign crude runs. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. §Reflects effect of five-day week effective Sept. 1, 1949.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of September	6,572,284	*6,714,745	7,424,844
Shipments of steel products, including alloy and stainless (net tons)—Month of August	4,918,314	4,534,855	5,329,060
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of September:			
Total U. S. construction	$810,309,000	$781,416,000	$665,417,000
Private construction	403,478,000	371,440,000	304,031,000
Public construction	406,831,000	409,976,000	360,786,000
State and Municipal	316,290,000	335,813,000	282,983,000
Federal	90,541,000	74,163,000	77,803,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of Aug. 15:			
All items	168.8	168.5	174.5
All foods	202.6	201.7	216.6
Cereals and bakery products	169.4	169.5	170.8
Meats	239.5	236.0	267.0
Dairy products	184.9	182.2	211.0
Eggs	222.2	204.1	220.2
Fruits and vegetables	201.9	210.2	199.6
Beverages	208.8	208.2	205.3
Fats and oils	144.0	141.0	197.3
Sugar and sweets	176.5	176.2	172.3
Clothing	187.4	188.5	199.7
Rent	120.8	120.7	117.7
Fuel, electricity and refrigerators	135.8	135.6	136.8
Gas and electricity	97.1	96.9	94.5
Other fuels	183.1	183.1	190.1
Ice	141.1	139.9	137.3
Housefurnishings	184.8	186.8	196.3
Miscellaneous	154.8	154.3	152.4
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE — As of Sept. 1 (in thousands):			
Corn, all (bushels)	3,525,741	3,538,257	3,650,548
Wheat, all (bushels)	1,129,081	1,131,830	1,288,406
Winter (bushels)	894,874	894,874	990,098
All spring (bushels)	234,207	236,956	298,308
Durum (bushels)	40,472	42,278	44,742
Other spring (bushels)	193,735	194,678	253,566
Oats (bushels)	1,314,258	1,308,608	1,491,752
Barley (bushels)	233,395	232,787	317,037
Rye (bushels)	18,831	18,831	26,388
Buckwheat (bushels)	4,862	4,810	6,324
Flaxseed (bushels)	41,569	41,924	52,533
Rice (bushels)	90,139	88,165	81,170
Sorghums for grain (bushels)	118,754	113,780	131,644
Hay, all (tons)	98,077	97,953	99,846
Hay, wild (tons)	12,339	12,682	12,848
Hay, alfalfa (tons)	36,940	36,906	34,083
Hay, clover and timothy (tons)	25,678	25,224	29,309
Hay, lespedeza (tons)	8,039	7,927	7,627
Beans, dry edible (100 lb. bags)	19,650	19,756	20,833
Peas, dry field (100 lb. bags)	3,418	3,256	3,584
Soybeans for beans (bushels)	204,207	202,386	220,201
Peanuts (pounds)	1,792,100	1,776,910	2,338,470
Potatoes (bushels)	363,061	362,534	445,850
Sweet potatoes (bushels)	51,904	51,924	49,806
Tobacco (pounds)	1,994,183	2,018,597	1,981,730
Sugar cane for sugar and seed (tons)	7,808	8,032	6,847
Sugar beets (tons)	9,865	9,758	9,422
Broom corn (tons)	43	43	30
Hops (pounds)	49,621	48,865	49,819
Apples, commercial crop (bushels)	129,423	127,823	88,407
Peaches (bushels)	75,729	75,063	65,352
Pears (bushels)	35,505	34,208	26,334
Grapes (tons)	3,050	3,051	3,044
Cherries (12 States) (tons)	230	230	214
Apricots (3 States) (tons)	216	216	247
Cranberries (5 States) (bbls.)	803	------	968
Pecans (pounds)	136,872	139,238	177,667
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of September:			
Adjusted for seasonal variation	289	*282	309
Without seasonal adjustment	299	*237	319
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of July (000's omitted)	19,960,312	19,904,101	19,367,345
Revenue from ultimate customers—month of July	$375,418,900	$371,446,400	$348,380,100
Number of ultimate customers at July 31	41,954,412	41,793,951	39,726,494
METAL PRICES (E. & M. J. QUOTATIONS)— Average for month of September:			
Copper (per pound)—			
Electrolytic, domestic refinery	17.325c	17.325c	23.200c
Electrolytic, export refinery	17.550c	17.551c	23.425c
Lead (per pound)—			
Common, New York	15.050c	15.032c	19.500c
Common, St. Louis	14.854c	14.791c	19.300c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	73.214c	71.891c	75.345c
Silver, London (pence per ounce)	52.298d	43,727d	45.932d
Sterling Exchange (Check)	$3.43929	$4.02522	$4.02750
Zinc (per pound)—East St. Louis	10.005c	10.000c	15.000c
Tin (per pound)			
New York Straits	102.087c	103.000c	103.000c
New York, 99% min. (§§)	101.087c	102.000c	102.400c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$72.800	$74.556	$75.040
¶Antimony (per pound), (E. & M. J.)	41.780c	41.730c	38.170c
Antimony (per pound), bulk, Laredo	38.500c	38,500c	35,000c
Antimony (per pound), in cases, Laredo	39.000c	39.000c	35.500c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$69.000	$69.000	$93.000
†Cadmium (per pound)	$2.000	$2.000	$1.900
‡Cadmium (per pound)	$2.075	$2.075	$1.950
§Cadmium (per pound)	$2.150	$2.150	$2.000
Cobalt, 97%	$1.800	Not avail.	Not avail.
Aluminum, 99% plus, ingot (per pound)	17.000c	17,000c	16.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
**Nickel	40.000c	40.000c	40.000c
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMERICAN RRS.)—Month of August:			
Total operating revenues	$742,876,747	$700,648,360	$868,089,239
Total operating expenses	587,115,711	569,818,427	637,361,854
Operating ratio—per cent	79.03	81.33	73.42
Taxes	$75,603,805	$66,172,895	$99,827,934
Net railway operating income before charges	65,727,317	50,337,002	115,709,714
Net income after charges (est.)	39,000,000	27,200,000	85,000,000
PORTLAND CEMENT (BUREAU OF MINES)— Month of August:			
Production (bbls.)	18,715,000	18,856,000	18,961,000
Shipments from mills (bbls.)	23,633,000	19,320,000	20,705,000
Stocks (at end of month) (bbls.)	14,395,000	*19,313,000	8,355,000
Capacity used	87%	87%	91%

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colbourne, N. S., U. S. duty included. §§Tin contained.

Government Housing—Threat To Private Mortgage Lending

(Continued from page 15)

terials have also helped reduce prices.

On the other hand, constant pressure is being put on Congress to provide more government-sponsored housing credit at lower rates for longer terms. This is regarded by some people as a cure-all for the country's housing problem. Unfortunately, this policy of easy, longer term credit serves chiefly to increase the demand for housing. It tends to keep prices higher than they otherwise would be. It encourages borrowers to make long term commitments beyond their means.

Government Influence on Real Estate Credit

Government is exerting an increasingly powerful influence on the market for real estate credit. It fixes the rates and terms on many types of private and government - sponsored mortgage loans. The rates and terms it establishes are artificially low. They are determined by legislation and not in the open market for mortgage credit. In the background lies the constant threat that the government itself may make direct mortgage loans for longer terms at lower rates if private lenders do not make them.

In this growing centralized control over real estate credit lies a challenge to mortgage lenders. In the past, the flow of mortgage money into housing has been determined by sound economic principles and practices. These are the availability of mortgage credit and the demand for housing and for mortgage credit; intelligent appraisal of the property; careful judgment as to the capacity of the borrower to repay and concern for his future financial safety, and the needs and welfare of his family and community. These lending standards have always helped develop personal and family initiative and responsibility.

Today, however, the inroads of government in the field of real estate credit threaten these established principles of mortgage lending. The credit and borrowing capacity of the government is in effect being substituted for the credit and financial capacity of individual citizens.

The insidious thing about this trend is that it is hard to grasp in its true perspective. At first glance, it may appear to benefit those in need of homes. In the last analysis, it damages badly the fabric of personal responsibility and enterprise. Its final cost is a tax laid upon the economy as a whole, as well as upon individual taxpayers.

In July, Congress passed the Public Housing Act of 1949. This law provides for slum clearance projects and also for government-sponsored construction of 810,000 units of low-cost rental housing. Under this law, short term government-sponsored loans to finance this low-rent construction are to be refunded into 40-year Public Housing Authority bonds when the housing is completed. These bonds are in effect guaranteed as to principal and interest by the government. The rental income from the housing admittedly will not cover its cost and maintenance expense. The difference will be paid by the government and can exceed $12 billion in 40 years. The subsidy will be paid eventually by the taxpayers, not by the renters. This is socialized housing.

Housing Amendments of 1949

A bill known as the Housing Amendments of 1949 went through a stormy career during the recent session of Congress. Among other provisions, the original version of the bill provided for construction of cooperative housing projects on government-sponsored or direct loans, at 3% interest for a term of 60 years. The bill provided for direct government home loans to all veterans who cannot obtain 4% GI loans from private lenders. It also further liberalized the terms of GI and FHA mortgages.

The terms and provisions of this bill illustrate dramatically the constantly growing trend toward easy, government-sponsored housing credit and direct government housing loans. They also show how intense the effort has become to create housing merely by liberalizing the terms of housing credit. Housing cannot be legislated by liberalizing credit. It must be built. Making more credit available on easier terms, only brings more buyers into the market. They bid against each other for whatever housing is available. They also acquire heavy financial burdens they must carry through the long years of their loans. If the borrowers cannot carry their loans, their fellow taxpayers must, because the government guarantees the loan.

The American Bankers Association testified in Washington against the provisions of the Housing Amendments of 1949 that would have authorized direct government mortgage loans. President Woollen expressed the opinion of bankers throughout the country when he testified before Congress. He stated:

"We believe the making of direct loans, except in times of war or extreme economic emergency, is not a proper function of government. Such a government activity is not consistent with the American concept of a system of free enterprise. It leads step by step to a complete socialization of credit."

He further declared:

"When government undertakes to enter directly into the lending field, it means the setting up of a large bureaucracy; entanglement in red tape; and, worst of all, the ever-present danger of political considerations entering into the granting of loans."

Fortunately, the provisions for direct government loans and for 60-year, 3% cooperative housing credit were eliminated from the House version of this bill. However, the possibility of further liberalization of mortgage credit and direct government loans will continue to be a source of deep concern to private mortgage lenders. In future sessions of Congress, we can expect more vigorous legislative efforts in this direction.

In this trend lies a threat to the country's efforts to build adequate housing. The threat is that direct government lending competition and further government liberalization of mortgage terms tends to discourage construction of privately financed housing. This point was very effectively brought out in recent testimony before Congress by the life insurance companies.

The insurance companies told Congress that approximately $3 billion of mortgage credit was available from the companies to finance large housing projects. They pointed out, however, that the proposal for extremely liberal government-sponsored loans for housing cooperatives would confront the companies with mortgage competition they could not hope to meet. Large government-sponsored loans for a 60-year term at 3% would force the insurance companies to lay aside their plans to finance the projects they were ready to undertake. The country would be deprived of $3 billion of privately financed housing construction.

A Challenge to Mortgage Lenders

Legislation of this type is a challenge to all mortgage lenders. The challenge is not solely that of government competition. Competition is part and parcel of the enterprise system in which we believe, and we are obliged to do our best to meet it if we can. But competition ought to be fair competition. As a direct-lending competitor, the government would have almost unlimited funds for lending as well as the power to dictate mortgage lending terms by law. This is not fair competition.

The great challenge to private lenders, however, goes even deeper than the question of meeting government competition. The challenge is essentially a test of their willingness and ability to do all they can to keep mortgage credit on a sound basis for the borrower, lender, and economy.

Private Bank Credit Ample

There is no need for further government liberalization of real estate credit. There can be no valid questioning of the ability and willingness of the banks to provide mortgage credit in adequate amounts on reasonable terms. The banks now have and will continue to have very large reserves of funds available for investment in mortgage loans.

Since 1945, the banks have made more than $10 billion of real estate loans. Of this total, approximately $4 billion was in loans to veterans for the purchase of homes. During the first six months of this year, the banks made more than 50,000 veterans' home loans. This means that more than 1,900 veterans received home loans from the banks every week. The banks made more than 240,000 non-veteran real estate mortgage loans during the first half of this year. This means that these borrowers obtained more than 11,000 mortgage loans from the banks every week.

The total of all mortgage credit in the United States at the beginning of this year was $52,343,000,000. Of this total, $50,492,000,000 was supplied by private mortgage credit lenders, including the banks. Government lending agencies supplied only $1,850,000,000 of direct mortgage loans. Most of their mortgage loans were on farm property. Even so, they provided only 3.5% of the total mortgage credit outstanding, while the banks and other private lenders supplied 96.5% of the total.

These figures illustrate the extent to which the banks and other private lenders are fulfilling their responsibility to private mortgage credit. The number and dollar volume of these loans demonstrate their willingness and ability to make real estate loans. Yet coupled with this responsibility is another one. This second responsibility is three-fold. It is to protect the bank depositors' funds that go into these loans, to protect overenthusiastic home buyers from saddling themselves with too much debt on houses that may rapidly depreciate in value in future years, and to help safeguard the country against the dangers of unsound credit extension that may in some future period of recession become a paralyzing drag on its economic vitality.

We want the people of this nation to have abundant and satisfactory housing. That is the goal toward which we have been striving through the years of our mortgage lending. We know that what is good for the nation is good for banking. Sound real estate mortgage loans are the most satisfactory source of earnings for the savings accounts in banks.

We want to encourage and develop the kind of housing and home financing that will help make this country a nation of satisfied, prosperous, and self-reliant families. We do not want to see home owners tied down through many years of their lives by heavy burdens of mortgage overindebtedness. We do not want them to live in housing that does not justify the price they paid or the burden of debt they carry. The surest way to encourage these troubles is by opening the reservoirs of direct and government-sponsored credit to all who want to borrow, regardless of their capacity to repay; by placing government guaranties behind loans that are not sound at their beginning;; and by making credit available at extremely low interest rates for excessively long terms.

Threat of Socialized Housing

We do not want to see credit of the United States used to finance the construction and maintenance cost of socialized housing. Britain's experiences in trying to achieve "the better life" through socialism are a warning to other nations. The once self-reliant, highly productive people of Britain sought security through socialism. It has not produced the better life for them. It has reduced their living standards. It has impaired their willingness and capacity to produce the things they want and need. It has undermined the virtues of self-reliance and personal responsibility that were the mainstay of Britain's strength through the long years of her history. Socialized housing in this country will not produce the better life for our own people.

We have no criticism of the many sound and worthwhile steps our government has taken to help the country produce and finance more and better housing. FHA insurance of home loans has been administered soundly. This agency's development of amortized home loans and minimum standards of home construction are splendid examples of government aid in the housing field. The banks have cooperated with the Veterans Administration in providing billions of dollars of loans to veterans. In the dark days of the depression, the government's aid to home owners through the HOLC was a practical, self-liquidating emergency measure of great value to the country.

But we do not want to see the standards of mortgage lending so reduced, or the basic soundness of mortgage credit so impaired that future distress and the financial difficulties of troubled families may bring to life again the unhappy days of the HOLC.

We have an obligation to provide credit for people who want to buy homes, and we accept that obligation now as we always have. We also have an obligation to see to it that the people who borrow the money are not being granted loans in amounts or on terms that will prove disastrous to them or harmful to the nation's future economic well-being.

We do not moralize about our responsibilities to our country and its people. We seek to fulfill them by providing adequate real estate credit and by trying to maintain the lending and home financing standards that we know will produce the soundest and most satisfying home ownership for the greatest number of people.

Morgan Stanley Group Offers Public Service Electric & Gas Preferred Stock Issue

Morgan Stanley & Co., Drexel & Co., and Glore, Forgan & Co., jointly head an underwriting group that offered Oct. 19 250,000 shares of Public Service Electric & Gas Co. 4.08% cumulative preferred stock (par $100) at $102 per share and accrued dividends.

Net proceeds will be added to the company's funds, out of which it expects to finance in part its current construction program. As of June 30, 1949, the current construction program of the company amounted to approximately $53,000,000. This amount will be increased in the future as additional capital expenditures are authorized. The approximate cost of the principal items included in the program is estimated at $20,000,000 for additions to the Sewaren Generating Station and $4,400,000 for additions and improvements to the Camden Coke Plant and the Harrison Gas Works.

Except for 58 shares of non-callable 7% preferred stock, the 250,000 shares of 4.08% cumulative preferred stock will constitute the company's only outstanding preferred stock issue. The new stock will rank prior to the company's 6,057,386 shares of $1.40 dividend preference common stock and 5,509,112 shares of common stock outstanding at June 30, 1949.

The new preferred stock will be redeemable at $106 per share on or before Sept. 30, 1954; at $104 thereafter but on or before Sept. 30, 1959; and at $103 per share on or after Oct. 1, 1959; plus accrued dividends in each case.

Public Service Electric and Gas Co. is engaged primarily in the production, purchase, distribution and sale of electric energy and manufactured gas in New Jersey. The area served by the company includes most of the larger cities and more populous sections of the state, extending from the northeastern part of the state, at the Hudson River, southwest across the state to Trenton and Camden at the Delaware River. According to the 1940 Federal census, the population of this territory served with electricity was about 3,250,000 and that served with gas was approximately 3,060,000. A subsidiary of the company operates a comprehensive intrastate mass transportation system with motorbuses and streetcars that serve most of New Jersey, and an interstate service extending into New York City and Philadelphia.

Of the company's operating revenues of $173,218,960 in the 12 months ended June 30, 1949, $126,850,637, or about 73%, were derived from its electric operations and $46,368,323, or about 27%, from its gas operations.

Mason With Hincks Bros.

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, CONN.—Lowell Mason has become associated with Hincks Bros. & Co., Inc., 872 Main Street. Mr. Lowell in the past was with A. W. Benkert & Co., Inc. and Robert C. Buell and Company.

With Smith, Ramsay

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, CONN.—Ned D. Johnson has been added to the staff of Smith, Ramsay & Co., Inc., 207 State Street.

With R. F. Griggs Co.

(Special to THE FINANCIAL CHRONICLE)

WATERBURY, CONN. — Alphonse J. LaBonne has joined the staff of The R. F. Griggs Company, 35 Leavenworth Street.

With Leason & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Chester R. Toutloff is now associated with Leason & Co., Inc., 39 South La Salle Street. He was formerly with Shillinglaw, Bolger & Co., Inc., and Straus & Blosser.

Devaluation—A Warning

(Continued from page 12)

us into serfdom for fear that we might choose slavery.

That kind of leadership, which seeks to inspire by unfulfillable promises of stability and security and which basically does not trust its own people, did not give us the recent victory. That kind of leadership will not give us the peace with freedom which is our deepest desire.

If leadership can make men slide austerely down into a hopeless and regulated existence, then braver leadership can give back to men the freedom to work their way toward independence and peace.

There are many sincere men who believe that the complex daily lives of millions can be planned out by a few. We cannot disagree with them, because we have seen it done. We know that the daily lives of millions of Russians are planned for by the Politburo. We read our daily press with horror as thousands of free Czechs are herded to the pits so that the life of their country may conform to a plan.

The police state we see in Russia today was probably not the state that Lenin dreamed of in 1917. Certainly a police state is not contemplated in the visions of a Cripps, a Beveridge or a Wallace. The fact remains that a vast, cruel racket has crawled out of whatever may have been the dreams of Lenin and has clutched the Russian people. I raise with you the question whether this will not always be so. Is it not perilously probably that when men, for whatever motives, adopt the principle that the lives of millions can be planned for by a few, they do no more than prepare the way for men of force who will succeed them as their plans inevitably go astray?

Dangers of Planned Economy

We cannot disagree with the proposition that the lives of men can be ruled (or, to use the modern phrase, "planned for") by a few men or even by one man. But I do not think we can find one example in man's long history where men have been so "planned for" or ruled and still retained their freedom. There is an inexorable pattern in this process. At first, reason and an appeal to humanity is sufficient to introduce "the plan." Reason is gently succeeded by persuasion and then, as the plans grow and fit more tightly, economic sanctions are substituted. Finally, as individuals or groups still do not conform and continue to bulge out of "the plan," physical force is applied to the bulges.

In the unfolding of this ancient process there are warnings all along the way. Those warnings may be heard in the squeals of the parts of a free society which it is hardest to squeeze into a plan. Perhaps the most recalcitrant element is the monetary system of a free nation. It is totally incompatible with central planning so its squeals are loudest. Our monetary system will warn us as our liberties are threatened. Unfortunately, it cannot make us pay attention to its alarm.

To most people money is an absolute of value. It furnishes an unchanging measure like the hours of the day. This assumption of permanence persists until some startling change, like devaluation, makes us look deeper into the nature of money—makes us bother to think about what it really is. Unless we are so aroused, we spend our time trying to earn it or keep it without regard to whether its real value is being dissipated. We seem willing to be like the Danaides, who spend all their time in Hades pouring water into a bottomless jar. If the warning that devaluation carries shakes us out of this apathy, then some good will again have come out of Nazareth.

Evils of Devaluations

There is a cruel conflict between two well defined, and probably closely related, trends which have been developing in the affairs of our countries during the past several years. We have seen, on the one hand, a rising thirst for government-granted security, for pensions, for medical aid, for relief of various sorts from uncertainties which men have faced independently in the past. On the other hand, we have for several years experienced a falling off in the purchasing power of our monies. In many ways the same policies of government have both whetted this thirst for security and debased the money in which that security is measured.

We do not have the statistics to determine how many billions of dollars have disappeared from the purchasing power once represented by the individual holdings of insurance policies, savings accounts and investments in government bonds in my country alone. However, we do know that the depreciation of 50% in the true value of our dollar since 1941 has placed these losses at a staggering total. These losses are in sad conflict with the hopes of our people who placed their faith in dollar savings. A simple illustration may serve to focus this fact. Only a few years ago we sold insurance annuities on the slogan "You too can retire on $100 a month." The depreciation of our money has forced us to change our advertisements. We now say "You too can retire on $200 a month." Perhaps another illustration is not inappropriate. A month ago the world was asked to value sterling at $4.03, now we are asked to value it at $2.80.

These are warnings at home and abroad that our wealth is being blown away. Yet coincident with these warnings we are constantly embarking on further ventures that promise further security to be ladled out by government and measured in terms of the same dollars which those ventures will depreciate.

Think of the problem of the planner who must make money behave. His job within his country is to make his people continue to trust the money he issues while he continues to make it less valuable. But even his impossible job at home is far more simple than the task of preventing people abroad from reflecting their mistrust of his policies in their valuation of his money.

Money Control Leads to Price Ceilings

At least at home he can print money and manipulate its value by expanding and contracting that shadow of money which we still call "credit." At home, when his manipulations are not successful in quieting mistrust, and the people with goods and labor to offer demand more and more of his depreciated paper in exchange, he still has an ace up his sleeve, if his people permit him to play it. He can impose price ceilings on their goods and services. At that stage it doesn't matter what people think of his money, he has told them what their labor and their goods are worth in his money. It is up to his people then to accept not only his money but his values. In fact, it does matter what his people think for there comes a time when they catch on to what he is doing and stop working and producing. When that time comes, the honest planner reaches the end of his weapons and doesn't know what to do. But when that time comes the man of steel will succeed to the system the humanitarian planner has set up and he will know what to do. He will apply force to obtain goods and services and another police state will be born.

But the job of the planner abroad is much harder. He has no power to prevent an outsider from expressing an honest appraisal of his money. He can't force the outsider into his price and wage controls. He can't prevent "devaluation."

Why do we refuse to see this pattern unfolding in our world? Why will we not realize that the planner can no more stand the impartial valuations of a free market than the quack doctor can stand an examination of his credentials? When will we realize that the doctrine that the state can protect its citizens from the cradle to the grave is a cruel deception even if it is preached by innocent men? When will we turn from this doctrine as we turned from the institutions of despotism and slavery in the past?

"What Can Be Done?"

No doubt you are weary of the warnings I find in the events of the past few weeks. But whether or not they have troubled you, as they have troubled me, I believe that I can guess at your next reaction—"What can be done?"

There is, of course, no one answer to what can, indeed must, be done. We have moved, in my opinion, a long way down a wrong road, but we have not gone entirely in the wrong direction. It seems to me that our method has been wrong but our spirit good. Much of what we have done has sapped our individual integrity and our individual capacity to stand on our own feet or even to want to stand alone. But many of our motives have been good and their humanity is too deep an expression of people's hopes to be cast aside.

In seeking what must be done it would be wasteful folly to try to retrace our steps. We must rather find our way across to another path and head forward again. We must realize that our present path ends in a box canyon, even though it is a soft path up a lush valley. We must retain our belief that there are new and better lands beyond the mountains ahead; but we must get over onto the perhaps harder, perhaps more rocky, paths along the ridges before the presently rising walls beside us funnel us forward into a trap.

I am not a moralist and I do not object to the road we are taking because it is easy. There is an easy route over many mountains and only the ignorant guide or the intentional Alpinist takes the harder one. I don't object to comfortable walking, but I am convinced that our present route will not get us where we want to go and that our strength will be lost in the place to which it is taking us. Much better a switch, while it can be made, even though it is a switch to a harder and longer route if that route is likely to "go."

If I may press this analogy from my memories of mountain climbing, our fault lies in our insistence on a map. The insecurity which war, the geographical conquest of a planet, and the deep scratches we have made into the physical secrets of the world have created in us, has made us try to forget that we don't know where we are going—that we are making a first ascent and cannot know where we are going. We have become discontented with aims and with experience as a guide to those aims. We have lost the courage to accept the lonely, Biblical warning "Thou has not passed this way heretofore." We want a map. We even want one so badly that we will deceive ourselves into accepting one drawn by men who know as little about the terrain ahead as we do. We seem satisfied with their map, even though it disregards all the geographical knowledge we have accumulated on the long road we have come.

When men of honesty and intelligence address themselves to the question "What can be done?", the first decision must be to waste no time looking for a map or waiting for one to be issued. There can be no "five year plan." There can only be an infinite number of alternatives along the way. The answer will develop, as we go, in the continuing demonstration of how well we apply the experience of the past to the endless decisions of the future.

We are not in any sense in the position of an expedition which is lost because we know the route we have followed and we have an enormous fund of knowledge to apply in making our decisions as they arise. If our guides are not familiar with that knowledge, or ignore it, we should put them to other work.

Path Should Be More Individual Freedom

We are not lost because, in our world at least, we have known where we want to go for a thousand years, which is a long time as men measure time for themselves. We have turned and twisted but we have moved toward greater freedom for individual men and women—freedom for their minds and for the expression by them of their opinions and their peculiarities above all, but freedom for their bodies too.

What must be done is to test all our decisions by the single question, "Will this make individual men more free?" What must be done is to do our best to distil out of the experience of the past, as we live it, standards by which we may make our decisions consonant with this basic human question.

Until we have adopted this approach to the problem of what to do, we should refrain from increasing the confusion by our answers. Until we have related the purpose of money to the objective of human freedom, we should spare mankind from our momentary monetary solutions.

If a course of conduct will deceive man out of the work of being self-reliant by promises that he can look forward to a pension in dollars which those promises will make worthless, then that is a bad course to pick even though it gives man a fleeting sense of future security.

If the adoption of gold coinage of money, or gold only as a standard against which to measure the value of different monies, will impose on governments a workable restraint in their traditional attempt to be unhampered by lack of cash and will, therefore, protect the economic freedom of men who are willing to work and save, then that is a good path to take.

Our principles as free men are as usual clouded by the myopia of nationalism, of personal ambition and by the curious desire to help particular men at the expense of mankind. This isn't going to change; but we won't even be able to recognize our own short-sightedness unless we work out for ourselves the principles which we believe have proven themselves present in wise decisions in the past.

In the area of human affairs that I have tried to search tonight, it seems to me that the answer to what we must do must be a statement of principles. I propose four for your consideration:

First: We must re-establish our faith in the ideals of independence and freedom, and we must revive our belief that these ideals can only be sought through hard study, personal integrity and work.

Second: We must reshape our laws to restore to us all the personal incentive to work and save and seek for ourselves the security which no state can give us out of jail.

Third: We must restore integrity to our systems of money to protect this incentive and our freedom; we cannot do this unless we deny to our representatives in government the power to hide unsound policies behind arbitrary controls of price at home and artificial expressions of value abroad.

Fourth: We must seek in our representatives men who have faith that we can be trusted with our own lives and the lives of our countries — men who themselves believe passionately in freedom, and will not seek to buy the votes of weak people with unfulfillable promises drawn on our treasuries.

"Fine ideals" you say, "hard to create and still harder to apply." That is true, but freedom too was hard to win. Our fight for it has stretched back over centuries. Freedom will never stay won. But freedom is worth fighting for, forever.

Langley & Co. Group Offers Blackstone Pfd.

A group headed by W. C. Langley & Co. is offering today (October 20) 35,000 shares of 4.25% cumulative preferred stock, $100 par value, of Blackstone Valley Gas and Electric Co. at $102.40 per share plus accrued dividends from Oct. 1, 1949.

Of the 35,000 shares being offered, 12,942 are subject to an exchange offer made to holders of the company's 6% preferred stock on the basis of one share of new stock for each share of old preferred held on Oct. 19, 1949 plus a cash settlement of $12.60 and a dividend adjustment; and 1,430 shares are subject to a subscription offer to certain common stockholders on the basis of one share of new preferred stock for each share of common stock held on Oct. 19. Both of the offers expire Oct. 31, 1949.

Proceeds of the offering are to be used to retire the outstanding 6% preferred stock of the company and the balance will be used to provide for construction expenditures.

Blackstone Valley Gas and Electric Co., incorporated in Rhode Island in 1912, is engaged in the electric and gas utility business and in the sale of electric and gas appliances and by-products from its gas manufacturing operations. The company's service area extends throughout the Blackstone River Valley in northern Rhode Island and the principal communities are Pawtucket, Woonsocket and Central Falls. Operating revenues are approximately 80% electric and 20% gas.

The stock being offered may be redeemed at $105.40 per share prior to Jan. 1, 1955 and at $104.40 per share on or after Jan. 1, 1960, plus accrued dividends in each case.

For the 12 months ended July 31, 1949 the company had net income of $1,202,804. Annual dividend requirements on the new preferred stock will be $148,750.

With Norman F. Dacey

(Special to THE FINANCIAL CHRONICLE)

STAMFORD, CONN.—Robert A. Smith has become connected with Norman F. Dacey & Associates, 322 Main Street.

Lawrence Leeby Adds

FT. LAUDERDALE, FLA. — George E. Hudson is with Lawrence R. Leeby & Co., First Federal Building.

Joins Adams, Sloan

SARASOTA, FLA.— George B. Drummond has joined the staff of Adams, Sloan & Co., Inc., Colonial Hotel Building.

Foreign Aid and Foreign Trade

(Continued from page 14)

the difficult and complex problems currently faced in international payments. Exchange adjustment is but one step, albeit a most important one, which helps to clear the way by removing some obstacles to the effective and fluid functioning of a world price system in accordance with free enterprise incentives.

Foreign countries have been spending $12 billion a year in our market and have been exporting about $6 to $6½ billion of goods a year to us. It is clear that they cannot continue to sustain their current level of imports from us unless they can earn more dollars by increasing their exports of goods and services to the dollar area. If—as is to be hoped—the volume of imports into the United States increases significantly, whether as a result of devaluation or simply because foreign countries increase their sales efforts in this market, it is possible that a few industries will ask for the raising of our tariff rates. I would like to ask you to consider this question in the broadest possible perspective from the point of view of the long-term interest of the economy as a whole.

We are faced with a very serious problem in attempting to restore international trade to a satisfactory balance. We cannot maintain our exports at a high and our imports at a low level indefinitely without continuing to finance the gap with funds provided by the American taxpayer. If Europe is to be self-sufficient, we must allow the European countries to earn the dollars they need to pay for the American goods and services which are essential to their economies, if they are to avoid social unrest and political instability. Trade will sooner or later have to go back on a more self-balancing basis.

But this is not all. Our own position will require us to continue to invest heavily abroad for a long time to come. Investment of European funds was the keystone of expanding world trade in the 19th century, and investment of U. S. funds—I hope primarily on a private basis—must now take over this role in order to make possible that expansion of production here and abroad which will assure rising living standards and economic progress in under-developed areas. It is a role which creates a major policy issue for the United States. For while such investment will undoubtedly mitigate the dollar pressure on foreign countries in the near future, eventually we will have to be prepared to import goods and services in larger amounts as the return on our capital investments. As their service charges fall due on past and future investments, borrowing countries will have to develop a surplus on current account over and above their essential requirements in the United States; otherwise, they will either have to restrict payment on their obligations to us or drastically curtail their future imports from this country.

Factors Tending to Increase Imports

Fortunately, there are several long-run factors which will tend to increase our imports of goods and services:

First, travel expenditures abroad should increase substantially in the postwar world, if for no other reason than the fact that our national income has risen so substantially above prewar levels. In any event, it seems very likely that American tourists will turn out to be an even more important source of dollars for foreign countries than in the past.

Secondly, imports of raw materials should be at substantially higher levels as a result of higher national income and the wartime depletion of domestic supplies of many such items. Who would have thought, for example, that copper, lead, zinc, iron ore and scrap would ever have been in short supply in the United States?

Thirdly, imports of luxury and semi-luxury items, noncompetitive or only partially competitive with United States products, may rise substantially with continuing high national income here and progressive recovery abroad. Moreover, our expanding population will consume larger quantities of goods which are not produced here at all or not in adequate quantities.

The only real hope I see for future normal world trade, the re-establishment of a functioning multilateral trading system with exchange convertibility, and the long-run solution of the dollar repayment problem, lies in the expansion of our foreign trade, on both the import and export side, the expansion of our foreign investments, and the eventual development of the import surplus which is normal for a matured industrial economy.

Therefore, I find it hard to believe that many Americans would consciously favor not only sacrificing our vital export interests but also encouraging an indefinite continuance of foreign aid with little prospect of eventual repayment, merely to curtail an increased inflow of imports into this country. A sustained low volume of imports and the consequent worsening of the dollar position of the European countries would inevitably involve an increase in unemployment as a result of our falling exports. It would involve greater difficulties for foreign countries in their efforts to reduce their dependence on economic aid from the United States. It would involve impeding the processes by which our investors can receive the yield on their investments abroad through the normal movement of goods to the United States market. The net upshot of such a restrictionist policy would be a long-term drain on our national income and our Federal budget with no *quid pro quo* to show for it, along with the very real danger of increasing economic instability and tension throughout the democratic world.

Overseas trade, because of its romantic and pioneering character, lends itself to the best in the American tradition of private enterprise. It is in this field, no less than in our domestic production, that the U. S. opportunity lies to demonstrate to the world the achievements of the American way of life. In the light of the brilliant record of American industry for initiative, inventiveness and efficiency, I think we need never worry about our being able to compete on fair and mutually advantageous terms not only in the domestic market but also in the markets of the world. I feel strongly that the United States has much more to gain than to lose by the relaxation of existing barriers to international trade, and that conversely any action on our part designed to raise such barriers would entail substantial net loss to our economy as a whole. It is no less to our interest than to the interest of our economic neighbors in this hemisphere and across the seas that we work out and promote ways and means of sharing the special talents, skills and resources the nations separately possess.

Our foreign trade seems small percentagewise. It may be only 5%, or 7%, or 9% of our total—but it is my conviction that it is a crucial segment of our economy which makes a decisive contribution to maintaining a rising living standard with a minimum of unemployment, and that without it there is a real possibility of a smaller national income with substantial unemployment and a lower standard of living. The American productive machine depends in part on the re-establishment and development of sound two-way foreign trade. It is obvious that foreign trade at the present time still to a large extent exists on an artificial, government-financed basis, and that our endeavors should be directed toward the expansion of international trade within the framework of a reduction of extraordinary governmental assistance and of greater reliance on the private capital market for foreign capital requirements.

Los Angeles Exchange To Celebrate 50 Years

LOS ANGELES, CALIF. — Financial and business leaders from every Southern California community are making plans to celebrate the 50th Anniversary of the Los Angeles Stock Exchange, the founding of Southern California's financial industry. Edwin L. Harbach, general chairman for the observance, said the financial industry has been overwhelemed by the response of the business and civic groups to early announcements of the event (Nov. 15-Dec. 15, 1949).

Libraries, museums, public buildings and business houses are planning anniversary displays and exhibits, the chairman said, and a committee has been established by the Exchange to provide speakers for business, civic and service organizations. Actual anniversary date is Dec. 7—Pearl Harbor Day.

Harbach said that other committees have been set up under the direction of prominent financial men to cover every phase of the celebration.

Committee Chairmen named include: Robert H. Parsons, Pacific Company of California, 105 North Van Ness Avenue, Los Angeles, as Vice-Chairman; Emerson B. Morgan, Morgan & Co., 426-B South Spaulding, Beverly Hills, Arrangements Committee; Harry W. Hurry, Bingham, Walter & Hurry, 1410 Rancho Road, Arcadia, Speakers Bureau; Murray Ward, Hill Richards & Co., 251 South Bedford Drive, Beverly Hills, Special Events Committee; Willis H. Durst, Wagenseller & Durst, Inc., 202 Oaklawn Avenue, South Pasadena, Public Relations Committee; and Donald Royce, William A. Staats & Co., 1123 San Vicente Boulevard, Santa Monica, Chairman of the Banquet Committee.

With Link, Gorman, Peck

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL. — James A. Woodburn has become associated with Link, Gorman, Peck & Co., Chicago, members of the Chicago Stock Exchange. Mr. Woodburn was formerly Rockford representative for Carter H. Harrison & Co. and prior thereto was with Dempsey & Co. and Sills, Minton & Co.

With Carl K. Ross & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE — Zeruah A. Merrow has joined the staff of Carl K. Ross & Co., Inc., Bank of Commerce Building.

With Boardman & Freeman

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Mildred G. Douglas has become associated with Boardman, Freeman & Co., Incorporated, 75 Federal Street. Miss Douglas was previously with Chace, Whiteside, Warren & Sears.

The Penchant for Power

(Continued from page 3)

Its administration of the Securities Acts has been inimical to our country and has impeded the flow of capital into trade and industry.

The Findings and Opinion of the Commission in the American Power & Light Company case is another demonstration of SEC thrusts against the over-the-counter market.

There the Commission approved a proposed plan of reorganization of American Power & Light Company with the proviso that certain securities to be distributed to its stockholders be listed on a recognized stock exchange forthwith in the case of three companies and within one year from the effective date of the plan as to a fourth company.

The principal purpose of this reorganization was to comply with the Death Sentence Provision of the Holding Company Act. Implicit in that sentence is the principle that the segregated parts of the Holding Company would become independent with non-interlocking directorates and with different general ownership.

The selection by the SEC of a designated market place for the securities before these were delivered to their owners thus served to deprive the stockholders of those companies, through their representatives, of their rights to choose for themselves whether or not they wanted their shares listed at all or when or on what exchange. This constitutes a usurpation of rights which will vest in the new managements of those companies.

Particularly dangerous is the implication that somehow listing is in the public interest and adds to the value of the securities. It merely designates a market, but does not assure one.

Some securities lend themselves to auction or listed trading; others do not. Management should make the decision. Hence it should never be imposed as a condition to the approval of a plan of reorganization.

This administrative juggernaut must be stopped or there is no telling what new bedevilments of the securities industry it will sponsor. Our Congress must be made aware of these dangers which beset us. Small wonder the question is being propounded, "How much more administrative interference can we stand?"

SEC Continues Unlisted Trading Privileges of Absorbed Exchanges in Mergers

Alters limitation to mergers "in same metropolitan area" so as to comprise a "geographic area."

The Securities and Exchange Commission has announced an amendment to its Rule X-12F-6 under the Securities Exchange Act of 1934, adopting a proposal published for comment on Aug. 22, 1949, in Securities Exchange Act Release No. 4294.

Prior to the amendment Rule X-12F-6 provided that in the event of a merger of two exchanges the surviving exchange could continue the unlisted trading privileges of the absorbed exchange, without further order of the Commission, only if the absorbed exchange and the surviving exchange were located "in the same metropolitan area." The amendment removes the requirement that the exchanges be located in the same metropolitan area and provides that the surviving exchange may, without further order of the Commission, continue unlisted trading privileges in any security which was admitted to such privileges on the absorbed exchange pursuant to Clause (1) of Section 12 (f), and in any security which was admitted to such privileges on the absorbed exchange pursuant to Clause (2) or (3) of Section 12 (f), if the vicinity of the surviving exchange includes the vicinity of the absorbed exchange. For the purposes of the rule the "vicinity of the surviving exchange" is defined to include the "vicinity of the absorbed exchange" if the vicinities of the absorbed and surviving exchanges are located within a single geographic division or adjoining geographic divisions of the United States as classified by the United States Bureau of the Census.

The purpose of the rule is to make it possible, upon the merger or consolidation of two or more exchanges, for the surviving exchange to continue the unlisted trading privileges of the absorbed exchange or exchanges without interruption when the conditions of the rule can be met.

As amended, the new rule reads:

"Rule X-12F-6. Continuance of Unlisted Trading Privileges on Merged Exchanges.

"(a) Subject to Section 12 (f), as amended, and the rules and regulations thereunder, a national securities exchange which has absorbed another exchange may, without further order of the Commission, continue unlisted trading privileges (1) in any security which was admitted to such privileges on the absorbed exchange pursuant to Clause (1) of Section 12 (f), and (2) in any security which was admitted to such privileges on the absorbed exchange pursuant to Clause (2) or (3) of Section 12 (f) if the vicinity of the surviving exchange includes the vicinity of the absorbed exchange.

"(b) For the purpose of this Rule the vicinity of the surviving exchange shall include the vicinity of an absorbed exchange if the vicinities of the absorbed and surviving exchanges are located within a single geographic division or adjoining geographic divisions of the United States as classified by the United States Bureau of the Census."

With Tifft Brothers

SPRINGFIELD, MASS. — William W. Vogel is now associated with Tifft Brothers, 1387 Main Street, members of the New York and Boston Stock Exchanges.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● American Trusteed Funds, Inc.
Oct. 17 filed 800,000 "Lexington Trust Fund shares." **General Distributor**—Corporate Leaders Sales Co., New York. **Business**—Investment company.

Anchor Mines, Inc., Los Angeles, Calif.
Sept. 26 (letter of notification) 296,000 shares (25c par) common stock. **Price**—$1 each. **Underwriter**—Hunter & Co., New York. To rehabilitate mill and mill machinery and to pay current indebtedness.

● Anderson-Farmer Corp., Maumee, Ohio
Oct. 3 (letter of notification) 5,000 shares ($25 par) common stock. **Price**—$50 each. No underwriter. To buy a new concrete elevator from the Anderson Elevator Co.

● Bankers National Insurance Co., Phoenix, Ariz.
Oct. 14 (letter of notification) 8,641 shares of common stock. To be sold by Jack H. and Marie O. Askins. No underwriter.

● Barclay Oil Co., Inc., Mt. Carmel, Ill.
Oct. 13 (letter of notification) 2,000 shares of non-convertible ($100 par) value preferred stock and 6,000 shares ($1 par) common stock. To be offered in units of one share of preferred and two of common stock at $102 a unit. **Underwriter**—Sterling, Grace & Co., New York. To acquire oil leases and drill wells.

● Berry Motors, Inc., Corinth, Miss.
Oct. 5 (letter of notification) 6,600 shares (no par) common stock. To be sold for R. Howard Webster, Montreal, Canada, at market (between $13 and $15). **Underwriter**—Gordon Meeks & Co., Memphis, Tenn.

● Black & White Department Stores, Inc., Tifton, Georgia
Oct. 5 (letter of notification) 3,000 shares ($100 par) 3% cumulative preferred stock. Price, par. No underwriter. To acquire stores in the South.

● Blue Ridge Insurance Co., Shelby, N. C.
Oct. 10 (letter of notification) 12,560 shares ($10 par) capital stock. Price, $17 per share. No underwriter. For working capital and general corporate purposes.

Canam Mining Corp., Ltd., Vancouver, B. C.
Aug. 29 filed 1,000,000 shares of no par value common stock. **Price**—800,000 shares to be offered publicly at 80 cents per share; the remainder are registered as "bonus shares." **Underwriter**—Israel and Co., New York, N. Y. **Proceeds**—To develop mineral resources.

● Capital Airlines, Inc.
Oct. 12 filed $3,700,000 series A 4% debentures due 1960 and $3,700,000 of series B 4% convertible income debentures, due 1960. **Offering**—Series A and series B debentures are to be offered in exchange for the $7,400,000 of outstanding 3½% convertible income debentures, due 1960. **Underwriting** — None. This exchange offer is to liberalize indenture terms.

Carolina Telephone & Telegraph Co., Tarboro, North Carolina
Sept. 28 filed 29,750 shares ($100 par) common capital stock. **Offering**—Offered to stockholders of record Oct. 19 at rate of two new shares for each five held at $100 per share. Rights expire Nov. 8. **Proceeds**—To reduce indebtedness resulting from construction and for general corporate purposes. **Underwriting**—None.

Central Maine Power Co. (11/7)
Oct. 5 filed $5,000,000 first and general mortgage bonds, due 1979. **Underwriter**—To be decided by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr and The First Boston Corp. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); White, Weld & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Otis & Co.; Shields & Co. Bids expected Nov. 7.

● Central Maine Power Co. (11/7)
Oct. 12 filed 200,548 shares ($10 par) common stock and 30,000 shares ($100 par) preferred stock. **Offering**—Common to be offered for subscription by common and preferred stockholders. New England Public Service Co. (holder of 68.53% of outstanding common) has waived its right to subscribe for 131,518 common shares. **Underwriters**—To be decided under competitive bidding. Probable bidders: Preferred—Salomon Bros. & Hutzler; Harriman Ripley & Co.; W. C. Langley & Co.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly). Common — Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co. **Proceeds**—To repay bank loans incurred for construction program and to further construction. Bids expected Nov.7.

● Central & South West Corp.
Oct. 13 filed 725,567 shares ($5 par) common stock. **Offering**—To be offered common stockholders at the rate of one share for each 10 held. **Underwriters**—To be determined by competitive bidding. Probable bidders include Lehman Brothers and Lazard Freres & Co. (jointly); Blyth & Co., Smith, Barney & Co. and Harriman Ripley & Co. (jointly); Carl M. Loeb, Rhoades & Co. **Proceeds**—To buy additional common stock in two subsidiaries as a means of helping them with construction programs.

● Coeur d'Alene West Fork Mining Co., Osburn, Idaho
Oct. 13 (letter of notification) 500,000 (5c par) assessable stock, with equal voting rights. **Price**—12½ cents a share. **Underwriter**—John Louis Moore, Seattle, Wash. For development, equipment, buildings and mine operations.

● Colorado Mines & Metals Co., Albuquerque, New Mexico
Oct. 11 (letter of notification) 216,000 shares ($1 par) common stock, of which 155,000 shares offered by company and 61,000 shares by E. T. Chase, Silverton, Colo., President of company. No underwriter. To develop a general mining business. Office, 214 Rosenwald Bldg., Albuquerque, N. M.

Colorado Oil & Gas Co., Alamosa, Colo.
Aug. 30 (letter of notification) 250,000 shares ($1 par) common stock, of which 200,000 will be sold for company and 50,000 shares for N. O. Yeakley, a controlling stockholder, at $1 each. **Underwriter**—W. C. Hitchman Co., New York. To lease properties, drill wells, and for working capital.

Combined Locks Paper Co. (10/26-28)
Sept. 28 filed 50,000 shares of class A common stock ($1 par). **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—Offering by stockholders and not by company.

Consolidated Caribou Silver Mines, Inc.
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Temporarily postponed.

● Consolidated Engineering Corp., Pasadena, California
Oct. 7 (letter of notification) 200 shares ($1 par) common stock. To be sold at $14.50 per share to Alfred J. Proffitt, Altadena, Calif. Mr. Proffitt will resell these shares through Hopkins, Harbach & Co., Los Angeles. For working capital.

● Detroit Edison Co., Detroit
Oct. 14 filed 699,743 shares ($20 par) common stock. **Offering**—To be offered to stockholders of record Nov. 9 at $20 per share on the basis of one new share for each 10 held. Rights will expire Dec. 5. **Underwriting**—None. **Proceeds**—To repay bank loans for construction and for additional construction.

● Empire Insurance Agency, Inc., Hobbs, N. M.
Oct. 5 (letter of notification) $200,000 worth of common stock. **Price**—$25 a share. No underwriter. To build an office building.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 31 filed 620,000 shares of class A participating ($1 par) stock and 270,000 shares (25c par) common stock. **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—Names by amendment, and may include John J. Bergen & Co. and A. M. Kidder & Co. Underwriters will buy the remaining 135,000 shares plus unsubscribed shares of the new common. Offering price of class A $5. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

● Hallicrafters Co., Chicago
Oct. 12 (letter of notification) 2,000 shares of common stock, to be sold by Raymond W. Durst, Vice-President, at market (about $4.25). **Underwriter**—Doyle, O'Connor & Co.

Hawaiian Electric Co., Ltd., Honolulu
June 21 filed 150,000 shares of series E cumulative ($20 par) preferred and 50,000 shares of ($20 par) common. **Offering**—Preferred will be offered to preferred holders at 1-for-3 rate and common will be offered to common stockholders at 1-for-9 rate. **Underwriters**—Dillon, Read & Co. Inc. and Dean Witter & Co. will buy unsubscribed preferred: unsubscribed common will be sold either at public auction or to the underwriters. **Proceeds**—To pay off short-term promissory notes and to carry merchandise inventories and receivables or to replenish treasury funds. The balance would be used for other corporate purposes or construction.

Illinois Power Co.
Oct. 6 filed 239,601 shares (no par) common stock. **Offering**—To be offered to stockolders of record Oct. 20 at rate of one new share for each eight shares held. Rights expire Nov. 3. **Underwriters**—The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Construction program.

Indianapolis Power & Light Co. (10/21)
Sept. 16 filed $40,000,000 of first mortgage bonds, due 1979. **Underwriters**—On Oct. 19 issue was awarded to Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp. on a bid of 101.5298 for a 2⅞% coupon. To be offered Oct. 21 at 102⅛ to yield 2.77%. **Proceeds**—To redeem $40,000,000 of outstanding bonds, with other company funds added to pay the premiums.

● Inlet Molded Products Corp., New York
Oct. 5 (letter of notification) 440 shares of capital stock (par $100). Price, par. Working capital, etc. No underwriter.

Insurance Co., of Florida, Miami, Fla.
Sept. 7 (letter of notification) 12,000 shares ($10 par) common stock. **Price**—$25 each. **Underwriter**—Atwill & Co., Miami Beach. To complete formation of a stock insurance company. Office, 139 N. E. 1st Street, Miami, Fla.

● Insurance Shares Inc., Denver, Colo.
Oct. 12 (letter of notification) 2,500 shares ($50 par) 4% preferred stock, to be offered at par, and 12,500 shares (no par) common to be given away with the preferred at the rate of 10 shares of common with each two shares of preferred sold.

Interstate Power Co., Dubuque, Iowa (11/1)
Oct. 10 filed 300,000 shares ($3.50 par) common stock. **Underwriters**—To be determined under competitive bidding. Probable bidders include Smith Barney & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co.; Harriman Ripley & Co. **Proceeds**—Construction.

Interstate Telephone Co., Spokane, Wash.
Sept. 26 (letter of notification) 1,321 shares of $5.50 cumulative preferred voting stock ($100 par). **Underwriters**—Pacific Northwest Co.; Paine, Rice & Co.; Murphy Favre, Inc., and Richards & Blum., Spokane, Wash. To redeem outstanding $6 preferred stock at $110 a share.

Iowa-Illinois Gas & Electric Co. (10/25)
Sept. 23 filed $10,000,000 of first mortgage bonds, due 1979. **Underwriter**—To be decided under competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Glore, Forgan & Co.; Harris, Hall & Co. (Inc.); Lehman Brothers; Harriman Ripley & Co., Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Smith, Barney & Co. **Proceeds**—For electric and gas distribution facilities construction. **Bids**—Bids for purchase of bonds will be received by company at suite 2200, 105 W. Adams St., Chicago, up to 11 a.m. (CST) Oct. 25.

● K-W Oil Co., Phoenix, Ariz.
Oct. 6 (letter of notification) 45,000 shares of common stock. **Price**—$1 each. No underwriters. To develop an oil well. Office, 214 N. Central Avenue, Phoenix, Ariz.

Keller Motors Corp., Huntsville, Ala. (10/24-27)
May 10 filed 5,000,000 shares (3¢ par) common. **Underwriter**—Greenfield, Lax & Co., Inc., New York. **Price**—$1 per share. **Proceeds** — To purchase additional plant facilities, tools, dies, jigs, etc.; the balance for working capital. Statement effective Oct. 3. Expected week of Oct. 17.

Kentucky Utilities Co., Lexington, Ky.
Oct. 4 filed 165,500 shares ($10 par) common stock and 25,000 shares of 4¾% cumulative preferred stock ($100 par). Common stock will be offered for subscription by stockholders and employees at $10 a share and will not be underwritten. **Underwriter** — For preferred: To be determined under competitive bidding. Probable bidders: Kidder, Peabody & Co.; Union Securities Corp. and Merrill Lynch, Pierce, Fenner and Beane (jointly); A. G. Becker & Co.; White, Weld & Co. **Proceeds**—For construction.

● Kistler's Radar Sandwiches of America, Inc., Akron, Ohio
Oct. 14 (letter of notification) 4,000 shares ($50 par) preferred stock. Price, par. To finance the purchase of heating and production equipment to be sold to licensees.

Kittanning (Pa.) Telephone Co.
Sept. 14 (letter of notification) 3,000 shares of capital stock (par $25). Price, $45 per share. Stock will be offered Oct. 1 to stockholders of record Sept. 17 in ratio of one-for-eight. Rights expire Nov. 1, after which shares not subscribed for will be offered to employees and unsubscribed shares will be offered Nov. 8 to public in area in which company serves. Finance expansion program. No underwriting.

NEW ISSUE CALENDAR

October 20, 1949
Illinois Power Co. .... Common

October 21, 1949
Indianapolis Power & Light Co. .... Bonds

October 24, 1949
Keller Motors Corp. .... Common

October 25, 1949
Iowa-Illinois Gas & Electric Co. .... Bonds
Southern Pacific Co., noon (EST) .. Eqp. Trust Ctfs.
Susquehanna Mills, Inc., 11 a.m. (EST) ... Common

October 26, 1949
Combined Locks Paper Co. .... Common

November 1, 1949
Interstate Power Co. .... Common
Resort Airlines, Inc. .... Common
Union Electric Co. of Mo. .... Preferred

November 7, 1949
Southern Colorado Power Co. .... Common

November 9, 1949
Detroit Edison Co. .... Common
Wabash RR. .... Equip. Trust Ctfs.

November 11, 1949
Central Maine Power .... Bonds and Stocks

November 15, 1949
Associated Telephone Co., Ltd. .... Bonds

November 29, 1949
Southern Co. .... Common

• **Long Canyon Mining Co., Ogden, Utah**
Oct. 7 (letter of notification) 325,000 shares of common stock. **Price**—20¢ per share. No underwriter. To pay bills and drill a new tunnel in an ore vein.

• **McCormick & Company, Inc., Baltimore, Md.**
Oct. 12 (letter of notification) 600 shares of 5% cumulative preferred stock ($100 par) and 6,000 shares (no par) non-voting stock and 10,000 shares no par) voting stock. **Price**—Preferred, par; voting and non-voting stock, $15 per share. **Underwriter**—Alex. Brown & Sons, Baltimore will offer 1,000 shares of non-voting common stock for working capital.

• **Maryland Jockey Club of Baltimore**
Oct. 11 filed voting trust certificates for 4,540 shares of common stock (par $100).

• **Marysvale Uranium Development, Inc., Salt Lake City, Utah**
Oct. 5 (letter of notification) 1,000,000 shares of capital stock. **Price** — 10 cents each. **Underwriter** — Arthur Blake Thomas, Salt Lake City. To prospect for uranium and other minerals.

• **Massachusetts Investment Trust**
Oct. 11 filed 1,409,792 shares of beneficial interest to be offered at market. **Distributor**—Vance, Saunders & Co. **Proceeds**—For investment.

Mercantile Acceptance Corp. of California
Sept. 8 (letter of notification) $100,000 4% 10-year debentures. **Underwriter**—Guardian Securities Corp., San Francisco. For general corporate purposes.

• **Midwestern Insurance Co., Oklahoma City, Okla.**
Oct. 6 (letter of notification) 1,500 shares of preferred stock. **Price**—$100 per share. No underwriter. To increase capital. Office, 212½ N. W., 15th Street, Oklahoma City, Okla.

• **Minnesota Mining & Manufacturing Co.**
Oct. 19 filed 75,000 shares (no par) common stock. **Offering**—To be sold to employees of the company and five wholly-owned subsidiaries. **Underwriters** — None. **Proceeds**—To buy in debentures or $4 preferred stock.

• **Missouri Power & Light Co.**
Oct. 14 filed $2,000,000 of first mortgage bonds, due 1979, and 20,000 shares of cumulative preferred stock ($100 par). **Underwriters**—To be decided under competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Glore, Forgan & Co.; White, Weld & Co. and Shields & Co. (jointly); Kidder, Peabody & Co. (bonds only); Equitable Securities Corp. (bonds only); W. C. Langley & Co.; Harriman Ripley & Co.; Salomon Bros. & Hutzler (preferred only). **Proceeds**—To retire unsecured promissory notes and reimburse treasury for construction purposes.

• **Multnomah Plywood Corp., Portland, Ore.**
Oct. 11 (letter of notification) 120 shares of $2,500 par value common stock. No underwriter. To pay for assets bought from Portland Plywood Corp., for working capital and to complete plant. Office, 800 Pacific Building, Portland, Ore.

Nash Finch Co., Minneapolis, Minn.
Oct. 3 (letter of notification) 800 shares of common stock. Price, between $15 and $17. To be sold by W. K. Nash, a Director. **Underwriter**—J. M. Dain & Co., Minneapolis.

• **New England Electric System, Boston.**
Oct. 14 filed 669,508 shares ($1 par) common stock. **Offering**—To be offered to stockholders at the rate of one new share for each 10 held. **Underwriter**—To be decided under competitive bidding. Probable bidders for common include Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co. and Goldman, Sachs & Co. (jointly); Blyth & Co., Inc. and Lehman Brothers (jointly). **Proceeds**—For additional investment in the common stock of subsidiary companies so that the subsidiaries can finance construction programs.

• **New Haven (Conn.) Clock & Watch Co.**
Oct. 13 (letter of notification) 6,600 shares ($1 par) common stock, to be sold by Lawrence J. Rubenstein, Roxbury, Mass. No underwriter.

New Jersey Power & Light Co.
June 9 filed 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers. **Proceeds**—Will be applied to the payment of the cost of, or in reimbursement of payments made for, construction of additions and betterments subsequent to April 30, 1949. Sale deferred until later this year.

Northern Ohio Telphone Co., Bellevue, Ohio
Sept. 23 filed 13,575 shares 4½% cumulative preferred stock ($100 par). **Underwriters**—Lawrence Cook & Co. and Cunningham & Co., Cleveland. Price, par. **Proceeds**—To reimburse company for funds spent to buy 22,574 shares of common capital stock of Star Telephone Co., Ashland, Ohio.

Pacific Finance Corp. of California
Oct. 7 filed 19,750 shares ($10 par) common stock. **Offering**—To be sold at $18 per share under a stock option plan for which options were issued on May 2, 1947. **Underwriter**—None. **Proceeds**—For general corporate purposes.

• **Pacific Powder Co., Tenino, Wash.**
Oct. 10 (letter of notification) 750 shares ($100 par) second preferred stock, 6% cumulative dividends, at $100 each, and 75,000 of 5% first mortgage bonds. No underwriter. To build a nitrator plant and install necessary equipment.

Pennsylvania Electric Co.
Oct. 6 filed $11,000,000 first mortgage bonds, due 1979, and 70,000 shares of series D cumulative preferred stock ($100 par). **Underwriters** — Competitive bidding. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co., and Glore Forgan & Co. (jointly); Harriman Ripley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.; Kidder, Peabody & Co.; Kuhn, Loeb & Co., Lehman Brothers and Drexel & Co. (jointly).

Power Petroleum Ltd., Toronto Canada
April 25 filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27.

Public Service Co. of Indiana, Inc.
Sept. 12 filed 81,744 shares of common stock (no par). **Offering**—To be offered to stockholders of Southeastern Indiana Power Co. in exchange for 5½% cumulative preferred stock (par $100) and common stock (par $10) on basis of 4½ shares common Public Service for one preferred share Southeastern and 1½ shares Public Service for one common share Southeastern. **Underwriter**—None.

Resort Airlines, Inc. (11/1-4)
July 27 (letter of notification) 54,000 shares ($1 par) common stock, of which 50,000 shares offered by company and 4,000 shares by George B. Wilkinson, Charlotte, N. C. **Underwriter**—Marx & Co., New York. **Price**—$5 per share. To be used for equipment and additional working capital in connection with the company's air cruise service. Expected week of Oct. 24.

• **Smith, Inc., Fargo, N. D.**
Oct. 12 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($25 par) and 15,500 shares ($5 par) common stock. **Price**—Preferred to be sold at $25 and common at $7.75. **Underwriter**—W. R. Olson Co., Fergus Falls, Minn. To retire bank loans.

• **Southern Colorado Power Co. (11/7)**
Oct. 17 filed 170,336 shares (no par) common stock. **Offering**—To be offered stockholders at the rate of one new share for each three held. **Underwriter**—Boettcher & Co and Bosworth, Sullvan & Co., Denver, and Hutchinson & Co., Pueblo, Colo. **Proceeds**—To repay bank loans and for construction.

Sudore Gold Mines Ltd., Toronto, Canada
June 7 filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriting**—None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

• **Textoma Park, Inc., Denison, Texas**
Oct. 6 (letter of notification) 1,000 shares ($1 par) common stock to be offered at $1 each and 1,000 of $50 second mortgage 10-year notes. To build a resort, including lodge, pavilion, clubhouse, etc. Office, Grandpappy Point, Denison, Texas.

• **Tri-Wheel Motor Corp., Oxford, N. C.**
Oct. 14 (letter of notification) 99,900 shares of class A common stock. **Price**—$3 each. No underwriter. To retire bank indebtedness.

• **Tynar Corp., Los Angeles, Calif.**
Oct. 12 (letter of notification) $102,500 common stock (par $10) and 6% promissory notes in units of 6¼ shares of common which can be purchased along with each $2,500 loan evidenced by a promissory note due Dec. 31, 1950. No underwriter. To buy cameras, film and equipment.

Union Electric Co. of Missouri (11/1)
Sept. 30 filed 150,000 shares of cumulative preferred stock (no par). **Underwriter**—To be determined under competitive bidding. Probable bidders: Dillon, Read & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Lehman Brothers. **Proceeds**—For construction. Bids expected Nov. 1.

• **Union Oil Co. (Calif.)**
Oct. 17 filed 600,000 shares ($25 par) common stock. **Proceeds**—The shares are to be issued in partial payment for all of the 35,000 outstanding shares of capital stock of the Los Neitos Co., an oil producing company. Balance of the purchase price is $22,400,000 in cash. This will be obtained from the sale of $40,000,000 of 2¾% 25-year promissory notes to a limited number of institutional investors. Proceeds of the sale of the notes will also be utilized to retire $14,600,000 of the company's 3% debentures due Jan. 1, 1967.

• **United Cigar-Whelan Stores Corp.**
Oct. 10 (letter of notification) 4,144 shares of common stock (par 30c). Price, $3 per share. Corporate purposes. No underwriter.

United Minerals Reserve Corp., Chicago
July 27 (letter of notification) 270,000 shares of common stock. **Price**—$1 each. **Underwriter**—Edward W. Ackley & Co., Boston. For development of mining properties.

Upper Peninsula Power Co.
Sept. 28 filed 154,000 shares of common stock (par $9). **Underwriters**—SEC has granted exemption from competitive bidding. An investment banking group managed by Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Paine, Webber, Jackson & Curtis, may be underwriters. **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively.

Western Arkansas Telephone Co., Russellville, Ark.
Aug. 16 (letter of notification) 1,000 shares of 6% cumulative non-participating preferred stock (par $100 per share). **Underwriter**—Lewis W. Cherry Co., Little Rock, Ark. **Proceeds**—To pay indebtedness for equipment and supplies.

Western Oil Fields, Inc., Denver, Colo.
May 19 (letter of notification) 800,000 shares of common capital. Price, 25¢ per share. **Underwriter**—John G. Perry & Co., Denver, Colo. For working capital and drilling of wells.

• **Wilcox-Gay Corp., Charlotte, Mich.**
Oct. 13 (letter of notification) 140,000 shares ($1 par) common stock to be offered at par, and 150,000 3-year option warrants for purchase of a like number of shares of common at 1 cent per warrant. **Underwriter**—Gearhart, Kinnard & Otis, Inc., New York City. For working capital.

York (Pa.) County Gas Co.
Sept. 23 (letter of notification) 6,000 shares of common stock (par $20). To be offered for subscription by stockholders of record Oct. 14 in ratio of 1/5th of a new share for each share held, at $50 per share. Rights expire Nov. 1. For improvements, extensions, etc. Not underwritten.

Prospective Offerings

American Bosch Corp.
Oct. 7 reported company plans sale of $4,000,000 15-year sinking fund debentures with Allen & Co. as underwriter.

American Natural Gas Co.
Investment banking firms have been forming into groups to compete for the underwriting of an offering by company of 276,805 shares of common stock. It is expected that this additional stock will be offered first for subscription by shareholders in the ratio of one for 10 held. American Natural Gas was formerly known as American Light & Traction Co. Probable bidders include: Blyth & Co., Inc.; Lehman Brothers; Glore, Forgan & Co. and W. C. Laughlin & Co. (jointly).

Associated Telephone Co., Ltd. (11/15)
Oct. 6 company applied to the California P. U. Commission for permission to sell $9,000,000 first mortgage bonds due 1979. The bonds are to be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Paine, Webber, Jackson & Curtis; White, Weld & Co., Kidder, Peabody & Co. and Shuman, Agnew & Co. (jointly).

Black Hills Power & Light Co.
Oct. 11 company filed plans for issuing 33,730 additional shares of common stock which will be offered to stockholders under subscription rights. Dillon, Read & Co., Inc., will underwrite the offering. Proceeds of the issue will be used for plant improvements and for repayment of bank loans.

Butterfield (W. S.) Theatres, Inc.
The Paramount Pictures Inc. invites offers for the purchase of the following stock which it now owns: 37,500 shares of class B stock of W. S. Butterfield Theatres, Inc., and 6,940 shares of class B stock of Butterfield Michigan Theatres Co. Inquiries should be addressed to Sidney M. Markley, Paramount Pictures Inc., 1501 Broadway, New York 18, N. Y.

W. S. Butterfield Theatres, Inc., class B stock represents 25.8079% of outstanding stock and is all of the outstanding class B stock. This stock is entitled to elect

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one-third of the board of directors. W. S. Butterfield Theatres, Inc., owns and/or leases 65 theatres in 18 of the larger towns of Michigan, except Detroit, and has interests through subsidiaries in 26 theatres in nine similar towns.

Butterfield Michigan Theatres Co. class B stock represents 33⅓% of the outstanding stock and is all of the outstanding class B stock. The stock is entitled to elect one-third of the board of directors. Butterfield Michigan Theatres Co. owns and/or leases 20 theatres in 10 of the smaller towns of Michigan, and has an interest through a subsidiary in two theatres in one similar town.

Central Hudson Gas & Electric Corp.

Aug. 11 requested SEC authorization to issue and sell $6,000,000 of convertible debentures. Probable bidders: Union Securities Corp, Salomon Bros. & Hutzler and Spencer Trask & Co. (jointly); The First Boston Corp.; Drexel & Co. and Stroud & Co. (jointly); White Weld & Co. and Stone & Webster Securities Corp. (jointly); W. C. Langley & Co.; Harriman, Ripley & Co.; Shields & Co.; Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Otis & Co. Offering expected in November.

● **Chicago Rock Island & Pacific RR.**

Oct. 13 the company placed before the ICC for approval an "interim" step in its plan to refinance its funded debt of about $60,000,000.

The road asked the ICC to approve issuance of $25,760,000 of first mortgage 5-year 3¼% bonds, series B, to be sold or pledged against a short-term loan. Proceeds of the sale or loan will be used to redeem all outstanding first mortgage series A bonds on Jan. 1, 1950, at 104½ and interest to redemption date, a total of $27,436,305. The company asked to be relieved from ICC rules requiring competitive bidding because, under the first mortgage, it must publish the first offer of redemption on or before Nov. 1, this leaving insufficient time for steps incident to competitive bidding.

Cleveland Electric Illuminating Co.

Sept. 28 company has arranged a bank credit of $15,000,000 to finance construction costs. Long-term financing of either bonds or preferred will be undertaken later, depending upon market conditions. Probable bidders on bonds: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; White, Weld & Co.

● **Consolidated Gas Electric Light & Power Co., Baltimore**

Nov. 17 stockholders will vote on approving a proposed amendment that would permit company to issue more mortgage bonds for capital requirements. Presently the mortgage provides that not more than $100,000,000 of first refunding mortgage bonds may be outstanding. If stockholders approve the limitation will be revised to permit the company to increase the outstanding amount of bonds from time to time as needed to $200,000,000. The revision would obviate the need for issuing second mortgage bonds or debentures, which would cost more in financing than the continued sale of first mortgage bonds.

● **Cuba, Republic of**

Oct. 19 Enrique Godey, President of Banco Godey-Sayan of Havana stated that financing of the Cuban Government's new $100,000,000 program of public works projects should be done through the flotation in this country and Cuba of a single bond issue rather than a series of bond offerings. It is reported that The First Boston Corp. will head the American investment banks handling the American share.

● **Derby Gas & Electric Corp.**

Oct. 14 requested SEC authorization to issue and sell such number of common shares (no par) as will yield about $295,000. Sale is exempt from SEC's competitive rule and shares will be sold through underwriters.

● **Food Fair Stores, Inc.**

Dec. 30 stockholders will vote on a proposal to raise the authorized indebtedness from $5,000,000 to $12,000,000. The increase is designed to finance expansion of company's supermarket chain which extends from New York to Florida.

Gerity-Michigan Corp.

Oct. 8 James Gerity, Jr., President, stated company considering plans involving long-term financing to provide funds for plant consolidation and to strengthen working capital.

Gulf States Utilities Co.

Sept. 27 reported company plans sale in November of $10,000,000 first mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Stone & Webster Securities Corp.; The First Boston Corp.

Idaho Power Co.

Sept. 29 company has asked the FPC for authority to issue up to $12,000,000 in first mortgage bonds. The company said the bonds would be issued either (1) under the third supplemental indenture to its Oct. 1, 1937, mortgage and deed of trust as additional bonds of its 2¾% series due Feb. 1, 1977, or (2) as a new 2¾% series of 30-year bonds due Nov. 1, 1979, to be provided for by a fifth supplemental indenture to be dated about Nov. 1, 1949. The issue would be disposed of by private offering and direct sale. Proceeds would be used in a construction and improvement program.

Louisville Gas & Electric Co.

Oct. 7 reported company has plans under consideration for refunding its outstanding $36,000,000 bonded debt into new lower cost securities. Probable bidders if sale is not negotiated: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly).

Middle South Utilities, Inc.

Oct. 6 Electric Bond Share Co. announced a proposed offering to its common stockholders of rights to purchase at $12 a share, 656,000 shares of Middle South Utilities, Inc., common stock at rate of one share of Middle South common for every eight shares of Bond & Share common. Record date and offering price period will be announced after SEC approval of the program. The rights offering will not be underwritten. One right will be distributed for each share of Bond & Share common, and each right will be worth approximately 64 cents at the Oct. 6 closing market price of 17⅛ for the Middle South common.

New York & Richmond Gas Co.

Oct. 11 company expects to replace its $2,125,000 4¼% first mortgage bonds, due 1966, with a longer issue bearing interest at 3¼% and due 1975. It is expected that company will sell the bonds privately to two insurance companies.

Northern States Power Co. (Minn.)

Aug. 10 company requested SEC authorization to sell from 1,357,918 to 1,584,238 shares of its common stock, no par value. It is intended to make the initial pro rata offering to present common stockholders. Probable bidders: Smith, Barney & Co.; White Weld & Co. and Glore, Forgan & Co. (jointly); Lehman Brothers and Riter & Co. (jointly). **Proceeds**—To be used to retire $15,000,000 of 2% promissory notes due on or before Dec. 30, 1949.

● **Ohio Public Service Co.**

Oct. 14 Cities Service Co. asked SEC to exempt from competitive bidding its proposed sale of 2,000,000 shares common stock (par $7.50) of Ohio.

● **South Carolina Electric & Gas Co.**

On Oct. 11, company announced plans to issue and sell $10,700,000 in bonds in 1950, 1951 and 1952, $3,000,000 in equity securities in 1950 and $3,000,000 in common stock in 1952, the proceeds to be used to finance in part its $34,000,000 expansion program in the five years from 1949 to 1953. The balance of the funds needed will be obtained from internal sources, including depreciation reserves.

● **Southern Co. (11/29)**

Oct. 18 reported four investment banking groups are preparing to enter competition for a probable offering by company of from 1,250,000 to 1,500,000 additional common shares. The groups are: Lehman Brothers; Harriman Ripley & Co., Inc.; Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp. and Equitable Securities Corp. Expectations are that the additional shares will be ready for public bidding about Nov. 29.

Southern Pacific Co. (10/25)

Bids for purchase of $15,780,000 equipment trust certificates, series CC, to mature in 15 equal annual instalments, will be received by the company at Room 2117, 165 Broadway, New York, up to noon (EST) Oct. 25. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

Susquehanna Mills, Inc. (10/25)

The Attorney General of U. S. invites bids for the purchase, as an entirety, all of 11,422 shares of the common stock (par 25¢) of company, with principal office at 404 Fourth Avenue, New York, N. Y. All bids must be presented at the Office of Alien Property, Department of Justice, 120 Broadway, New York, on or before 11 a.m. (EST), Oct. 25.

Wabash RR. (11/9)

Oct. 10 reported company planning the sale of $3,465,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly). Bids expected about Nov. 9.

Our Reporter's Report

The underwriting business this week showed the first real signs of renewed activity since the long lull which started back in the mid-summer. A number of new corporate issues, some of the secondary variety, some in the "standby" classification, and New York State's big housing issue served to stir things up after the long hiatus.

Investment bankers and those who assist them in distributing new securities naturally were in a more optimistic frame of mind despite the spread of the strike trend and the threat of a long deadlock in the steel and coal industries.

Strangely enough, under the circumstances, equity offerings appeared to fare exceptionally well as indicated by the quick oversubscription which marked the offering of a block of 100,000 shares of common stock of Empire District Electric Co. on Tuesday.

Meanwhile Duquesne Light Co.'s offering of $15,000,000 of new 30-year first mortgage bonds brought out a total of six bids with the winning group fixing a price to the company of 100.14 for a 2¾% coupon, the first time that low interest rate has been quoted in some time.

The other five bidders sought the issue with a 2¾% coupon. The lower rate is definite evidence of the general easing which has marked interest rates since the Federal Reserve and the Treasury, some months back, plumped for renewal of easy credit policies as a means of helping to curb the recession then ruling in many directions.

The successful group reoffered the bonds at a price of 100.52 to yield about 2.70%, and treading new ground for the current easy money cycle, the issue was reported a bit on the slow side.

Other Large Issues

Among the week's largest issues was that of Public Service Electric & Gas Co., involving 250,000 shares of new 4.08% $100 par value cumulative preferred stock brought out yesterday and which was reported well received.

The company will add the proceeds to its general fund for financing new construction.

Indianapolis Power & Light Co. opened bids yesterday for $40,000,000 of new first mortgage bonds to mature in 30 years. Proceeds here were earmarked, with other corporate funds, to take care of redemption of a similar amount of outstanding bonds at the required premiums.

Bank of America NTSA

One of the largest bank stock transactions in history is due on the market today under the proposal of Transamerica Corp. for the curtailment of its interest in Bank of America NTSA.

A nationwide syndicate, including many of the major West Coast and Wall Street underwriting firms, was slated to market a block of 1,199,554 shares of the big bank's stock for the account of the Giannini holding company.

By this operation the holding company, which has been subject to Federal Reserve Board pressure over a period of months, would reduce its interest in the bank to 11.1% from 22.9%, the portion of the bank's stock now held by Transamerica and its subsidiaries.

Offerings on "Rights"

Illinois Power Co.'s offering to shareholders of 239,690 shares of additional common stock, in the ratio of one new share for each eight shares held, is slated to get under way tomorrow, with bankers "standing by." The company will use the receipts for financing new construction.

Meanwhile Detroit Edison Co. shareholders of Nov. 9, it has been announced, will have the right to subscribe to 699,743 shares of additional capital stock at par of $20 a share in the ratio of one new share for each ten held.

This is part of a new capital raising program which calls for the ultimate sale to institutional investors of $40,000,000 of unsecured notes which will not be convertible into stock.

With King Merritt

(Special to The Financial Chronicle)

ST. LOUIS, MO. — George S. Bangert, Jr., is with King Merritt & Co., Inc., 408 Olive Street.

News About Banks and Bankers

(Continued from page 15)

liquidation proceeding should be completed by the end of the year.

"A three-member liquidation committee, consisting of Mr. Hitchings, John I. Middleton, Vice-President, and Herbert A. Berghof, Cashier, was appointed. Mr. Hitchings will become a Vice-President of Fidelity Union in Newark, Mr. Middleton will be Manager of the Irvington branch and Mr. Berghof will become Assistant Secretary and Treasurer of the Fidelity Union."

The transaction, it is stated, increases Fidelity Unions assets by slightly more than $23,000,000. The Fidelity's deposits June 30 were reported at $332,292,290.

* * *

The sale of the assets of the **Northern Bank & Trust Co. of Lancaster, Pa.**, to the **Lancaster County National Bank**, also of Lancaster, became effective on Oct. 1, according to advices of the Board of Governors of the Federal Reserve System, which stated that as a result a branch was established at the office of the Northern Bank & Trust Co. Northern Bank & Trust Co. continues as a member bank of the Reserve System pending consummation of its trust activities.

* * *

William Larimer Mellon of Pittsburgh, died on Oct. 8 at the age of 81 years. In the "Post Gazette" of Pittsburgh it was noted that W. L. Mellon turned from the banking house of his grandfather, Judge Thomas Mellon, toward Western Pennsylvania oil fields. Besides having also been identified with the traction business, he cooperated, said United Press accounts from Pittsburgh with other Mellons to take an interest in the J. M. Guffey Petroleum Co. and to acquire and develop huge tracts at Beaumont, Texas, and to establish the Gulf Refining Co. at Port Arthur, Texas, in its time one of the largest in the world. Among other things said the same advices he was a director of the **Mellon National Bank**, the Union Trust Co., the Union Savings Bank, the Standard Steel Car Co., the Ligonier Valley Railroad, and the Westinghouse Electric and Manufacturing Co. A merger of the Mellon National and Union Trust was later effected under the name of the Mellon National Bank & Trust Co. W. L. Mellon was a nephew of the late Andrew W. Mellon and cousin of Richard K. Mellon, Chairman of the Board of the Mellon National Bank & Trust Co.

* * *

The election by the directors of Jerome C. Christopher as a Vice-President of the **Fidelity Trust Co. of Baltimore, Md.**, was announced on Oct. 7 by President W. Bladen Lowndes, according to an item appearing in the Baltimore "Sun" of Oct. 8 by J. S. Armstrong, Financial Editor of that paper. Mr. Christopher entered the employ of the Fidelity as a runner in 1919, says the advices in the "Sun," and after serving in various departments was named Treasurer in 1947, continuing in that post until

his present advancement. William B. Alexander, who served as Comptroller since last January, has been elected Treasurer. Milton T. Stegman has been elected Comptroller, while William F. Scheikert succeeds Mr. Stegman as Auditor. Further promotions were reported in the "Sun" as follows:

"Arthur J. Hepburn, Jr., will serve as an Assistant Auditor. John A. Spilman was elected an Assistant Vice-President. William F. Rhein was elected Assistant Secretary and Assistant Treasurer. Charles W. Eackles and G. Elmer Klein were made Assistant Treasurers. J. Edward Macatee, Jr., was named Trust Officer and John B. G. Palen elected Assistant Trust Officer."

* * *

Charles Z. Henkle, Vice-President of the **Continental Illinois National Bank & Trust Co. of Chicago**, in charge of the savings department, died on Oct. 3. According to the Chicago "Daily Tribune," Mr. Henkle had been with the Continental Illinois bank and its predecessors for 29 years, and became Vice-President in 1941. The paper quoted further says that he was the son of William H. Henkle, Secretary of the old Illinois Trust and Savings Bank, one of the constituents of the present Continental bank.

It is likewise stated that Charles Z. Henkle was a veteran of both World Wars. He served as a Combat Infantry Captain in France in the first war and was wounded in action. He was awarded the Purple Heart and the silver star for valor. In the second war, he served as a full Colonel in the then 6th Army command in Chicago, as deputy director of personnel.

* * *

Joseph F. Ringland, President of the **Northwestern National Bank of Minneapolis** early in October threw the switch to light the bank's new electric sign, claimed to be the largest spectacular sign ouside of New York City. A fire-works display marked the occasion and at the same time 250 helium-filled balloons carrying $300 worth of savings account certificates were released from the roof of the bank's building. A feature of the sign is a huge weather ball which glows in various colors to predict the weather. This spectacular sign, it is announced, was designed by Douglas Leigh, Broadway sign creator, responsible for most of the spectaculars in Times Square.

* * *

James P. Hickok will, it is announced, relinquish on Jan. 2 the office of President of the **Manufacturers Bank & Trust Co. of St. Louis, Mo.**, to become an Executive Vice-President and a director of the **First National Bank in St. Louis.** In indicating this, the St. Louis "Globe-Democrat" of Oct. 1 noted that William C. Connett will continue also, however, to serve the First National as an Executive Vice-President. The same paper states that Mr. Hickok is Chairman of the current Community Chest campaign and is an officer or director of many civic and charitable enterprises. He was graduated from the University of Missouri and worked at banks in Hot Springs, Ark., and Clayton before coming to Manchester Bank of St. Louis as Executive Vice-President in 1933. Two years later he became President, then became head of Manufacturers Bank in February 1943.

* * *

At a meeting of the directors of the **Citizens Fidelity Bank & Trust Co. of Louisville, Ky.**, on Oct. 5 Lee P. Miller, Vice-President since 1944, was elected President succeeding Menefee Wirgman, who was named Chairman of the Board. The Louisville "Courier-Journal" of Oct. 6, from which we quote, likewise stated:

"W. R. Cobb, an Executive Vice-President since 1944, was elected Vice-Chairman of the Board. The positions now held by Messrs. Wirgman and Cobb were created at the meeting of directors. They will continue to serve as active executives of the bank along with Mr. Miller. The shifting of executives war partially caused by the resignation of Wallace M. Davis, Executive Vice-President, who accepted the post of President of Hibernia National Bank, New Orleans."

The election of Mr. Davis as President of the **Hibernia National Bank** was noted in our issue of Sept. 8, page 952. Mr. Wirgman, who has become Chairman of the Citizens Fidelity Bank & Trust, had been President of the latter since the consolidation of the Citizens Union National Bank and the Fidelity & Columbia Trust Co. in 1944. Previously, says the "Courier-Journal," he was President of the Fidelity & Columbia Trust Co. and was named President of the Citizens Union National Bank in 1939.

Mr. Miller, who entered the banking field in 1911 as an Auditor for the Fidelity Trust Co., is Chairman of the Taxation Committee of the American Bankers' Association and the Legislative Committee of the Kentucky Bankers Association. Mr. Cobb, who entered the Union National Bank as a clerk in 1907 was named Vice-President in 1919 of the new institution formed through the merger of the Union and Citizens National. He became Vice-President of the Citizens Fidelity in 1944.

* * *

For his contribution to the reconstruction of Italy, L. M. Giannini, President of the **Bank of America National Trust & Savings Association of San Francisco**, has been awarded Italy's highest civilian honor, the Order "Stella della Solidarieta, Italiana," first class. The decree and medal were presented to Mr. Giannini in the name of the President of the Italian Republic by Benedetto d'Acnunzo, Consul General for Italy in San Francisco. As a national director of American Relief for Italy, Inc., Mr. Giannini aided in the collection of food, clothing and funds and its distribution among distressed Italian people in the liberated portions of the country during the war and in the nation as a whole at the conclusion of hostilities.

* * *

Major changes in the executive branch of **The Royal Bank of Canda, Head Office, Montreal,** were announced on Oct. 18, Sydney

James Muir

S. G. Dobson

T. H. Atkinson

G. Dobson, President of the bank since 1946, was elected Chairman of the Board of Directors. He was succeeded by James Muir, whose election as President was also announced. Mr. Muir had been General Manager since 1945. T. H. Atkinson was appointed General Manager.

Mr. Dobson's elevation to the Chairmanship follows some 49 years of continuous service with The Royal Bank of Canada. He joined the bank in his native town of Sydney, Nova Scotia, served in branches from Halifax to Vancouver, in the Supervisors' Departments and at Head Office. In 1934 has was appointed General Manager, a post he held for 11 years. Mr. Dobson has been a director of the Bank since 1939. He was elected Vice-President in 1942 and President in June, 1946.

Mr. Muir's election as President marks the culmination of 38 years of service with The Royal Bank. He is the third member of the bank's staff to work up from a junior's desk to the highest executive post. Born in Scotland, Mr. Muir served his banking apprenticeship with the Commercial Bank of Scotland and at the Head Office of the Chartered Bank of India in London, England. He came to Canada in 1912 and entered The Royal Bank at Moose Jaw, Sask. Subsequently he gained experience in a number of Canadian branches, in the Inspector's Department in Winnipeg and at Head Office, Montreal. In 1925 he was transferred to the bank's New York office, serving for three years as Assistant Supervisor of the bank's business in Central and South America. He returned to Canada in 1928 to become manager of Winnipeg Branch and three years later was appointed General Inspector in Montreal. In 1935 he became an Assistant General Manager and in 1945 General Manager. Mr. Muir has been a director since 1947 and was appointed Vice-President in 1948.

T. H. Atkinson, the new General Manager, a native of Newcastle, N. B., joined the bank in 1911. On leave of absence from the bank from 1914-18, he served in the forces overseas and was commissioned in the field in 1916. Later he was promoted to Captain and won the Military Cross. He resumed his banking career in 1919, shortly after moving to Halifax, where he served first in the branch and later in the Supervisor's Department. In 1924 he was transferred to Head Office, Montreal, and was responsible for the organization of the bank's bond department five years later. In 1938 he was appointed supervisor of Quebec, New Brunswick and Eastern Ontario branches, and was made an Assistant General Manager in 1943.

Now Harris & Brown Co.

LITTLE ROCK, ARK.—The investment business formerly conducted by L. T. Harris in Pine Bluff is being continued by a partnership, Harris & Brown Co., from offices at 117 West Fourth Street. Partners are Mr. Harris and Gordon G. Brown.

With J. A. Hogle & Co.

(Special to THE FINANCIAL CHRONICLE)

RENO, NEV.—Jack R. Naylor has become associated with J. A. Hogle & Co., 23 South Virginia Street. He was formerly with First California Company.

DIVIDEND NOTICES

CITY INVESTING COMPANY

25 BROAD STREET, NEW YORK 4, N. Y.

The Board of Directors of this company on October 13, 1949 declared the regular quarterly dividend of $1.375 per share on the outstanding 5½% Series Cumulative Preferred Stock of the company, payable January 1, 1950 to stockholders of record at the close of business on December 20, 1949.

The Board of Directors of this company on October 13, 1949 declared a dividend of 15 cents per share on the Common Stock outstanding of the company, payable November 15, 1949 to stockholders of record at the close of business on November 3, 1949.

EDWARD FRAHER, Secretary

DIVIDEND NO. 40

Hudson Bay Mining and Smelting Co., Limited

A Dividend of one dollar ($1.00) (Canadian) per share has been declared on the Capital Stock of this Company, payable December 19, 1949, to shareholders of record at the close of business on November 18, 1949.

H. E. DODGE, *Treasurer.*

Hooker Electrochemical Company

$4.25 Cumulative Preferred Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 12, 1949 declared a quarterly dividend of $1.0625 per share upon its $4.25 Cumulative Preferred Stock, payable December 28, 1949 to stockholders of record as of the close of business December 2, 1949.

Cumulative Second Preferred Stock, Series A, Dividend

The Board of Directors of Hooker Electrochemical Company on October 12, 1949 declared a quarterly dividend of $1.125 per share upon its Cumulative Second Preferred Stock, Series A, ($4.50 dividend), payable December 28, 1949 to stockholders of record as of the close of business December 2, 1949.

Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 12, 1949 declared a dividend of Thirty Cents ($.30) per share upon its Common Stock, payable November 29, 1949 to stockholders of record as of the close of business November 2, 1949.

ANSLEY WILCOX 2nd, *Secretary.*

HOOKER CHEMICALS

DIVIDEND NOTICES

NATIONAL CONTAINER CORPORATION

On October 12, 1949, a regular quarterly dividend of 10c per share was declared on the Common Stock of National Container Corporation, payable December 10, 1949 to all stockhoders of record November 15, 1949.

HARRY GINSBERG, Treasurer

NATIONAL CONTAINER CORPORATION

A regular quarterly dividend of $0.296875 was declared on the 4¾% Cumulative Convertible Preferred Stock of National Container Corporation, payable November 1, 1949 to stockholders of record October 20, 1949.

HARRY GINSBERG, Treasurer

TIDE WATER POWER COMPANY

Dividend Notice

The Board of Directors has declared a quarterly dividend of 15c a share on the Common Stock of the Company, payable November 15, 1949 to holders of record October 28, 1949.

WARREN W. BELL, *President.*

October 17, 1949.

DIVIDEND NOTICES

DEBENTURE: The regular quarterly dividend of $2.00 per share on the Debenture Stock will be paid Nov. 1, 1949, to stockholders of record Oct. 24, 1949.

"A" COMMON and VOTING COMMON: A quarterly dividend of 25 cents per share on the "A" Common and Voting Common Stocks will be paid Nov. 15, 1949, to stockholders of record Oct. 24, 1949.

A. B. Newhall, *Treasurer*

Dennison Manufacturing Co.

Framingham, Mass.

DIVIDEND NOTICES

FEDDERS-QUIGAN CORPORATION

Exec. Office: 5801 Grand Ave., Maspeth, N. Y.

On October 4, 1949, a Regular Quarterly Dividend of Twenty-Five Cents per share was declared to stockholders of record October 18, 1949, payable on October 28, 1949.

SALVATORE GIORDANO, *President*

The Board of Directors of **Wentworth Manufacturing Company** has declared a dividend of twelve and one-half cents (12½c) per share on the outstanding common stock of the Company, payable on November 21, 1949, to stockholders of record at the close of business November 1, 1949.

Checks will be mailed.

JOHN E. McDERMOTT, Secretary.

NATIONAL SHARES CORPORATION

Earnings Statement for the Twelve Month Period Ended September 30, 1949.

Pursuant to its agreement with the Underwriters of its common stock, and in accordance with Section 11 (a) of the Securities Act of 1933, as amended, National Shares Corporation has made generally available to its security holders an earnings statement of the company for the twelve month period ended September 30, 1949.

Upon request addressed to it at 14 Wall Street, New York 5, N. Y., the company will mail copies of such statement to its security holders and to other interested parties.

NATIONAL SHARES CORPORATION

F. WILDER BELLAMY, *President*

Dated, New York, N. Y.
October 18, 1949.

THE UNITED CORPORATION

To the owners of COMMON STOCK

A dividend of 10¢ per share has been declared on the Common Stock of The United Corporation, payable November 23, 1949 to stockholders of record November 7, 1949.

This is the first dividend to be paid on United Common Stock in 12 years. It is possible that many shares of stock held by present owners may be registered in some different name.

In order that dividend checks may be correctly issued to you and reach you at your present address, IT IS IMPORTANT that you make certain that

(1) your stock is registered in your own name, or in the name of an authorized agent, and

(2) your correct address is on file with our Transfer Agent, J. P. Morgan & Co., Incorporated, 23 Wall Street, New York 8, N. Y.

Furthermore, the Company has pending before the Securities and Exchange Commission an application to pay a special capital dividend of 1/10th share of Niagara Hudson Power Corporation Common Stock for each share of United held. It is important that your stock be registered in the correct name and address so that, if this application is approved, your allotment of Niagara Hudson stock will reach you promptly.

THE UNITED CORPORATION

By WM. M. HICKEY, *President.*

Wilmington, Delaware
October 13, 1949

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Strange as it may now sound, there was never supposed to be a session of Congress as zany as that which is drawing to a close (or is it?), because Congress passed a law to end such foolishness and to incorporate the latest professorial doctrines of sound legislative management, in the Legislative Reorganization Act of 1946.

Some of the bright minds of 1945-46 got together and framed that Act. They were really going to reorganize the Congress. They were going to modernize it. They were going to provide businesslike systems. Legislation thereafter not only would be considered deliberately, thoroughly and expertly, but it would be handled with dispatch.

One of the first premises of the Legislative Reorganization Act was that too much was expected of the individual Representative and Senator. So the committee assignments of Senators and Representatives were reduced. A Senator was not supposed to serve on more than two major committees, a Representative on no more than one. Simultaneously the reorganizers cut down the number of committees, wiped out obsolete committees (which seldom hurt anybody), so that the members of Congress would not have to serve on too many committees.

Then, two, more money was allocated for "clerk hire" for the members of the House, with the thought that there would be enough work for the hiring of persons who could more or less study the issues before Congress and give their members a fill-in on the background of issues about which they would have to take a position. In the upper chamber, so-called, the Senators were explicitly authorized to hire what were called "administrative assistants" at $10,000 a year to do the leg work, book reading, and general boning up which a Senator might need and use profitably to help with the big mass of subjects upon which he must make decisions.

Thus the member of either House would get assistance in studying the merits of issues put before him, and by reducing the number of his committee assignments, avoid dispersion of effort and promote concentration of attention. Fewer members would concentrate more heavily upon fewer decisions, so of course, it followed theoretically the decisions would be more considered and expert.

Another better known gadget of the Legislative Reorganization Act was the so-called "Legislative Budget," a process by which the members of the taxing and spending committees were supposed to together by each Feb. 15, measure the tax revenue cloth, and cut the spending suit to match.

Finally, the Congress, ruled the reorganizers, should get out of town not later than July 31 each year, unless there was a war or grave national emergency. There was no sense in prolonging the sessions. It just meant more bickering and trading with no consequence of reaching a sounder judgment.

All this the Congress adopted and made its own "law" in the Legislative Reorganization Act of 1946.

* * *

Despite the beautiful theory of that act, the present session is, in the minds of elder members, the craziest, most disorganized, erratic session they have witnessed in a lifetime. The Congress had gone nearly through October without finally completing action on all appropriation bills. The Legislative Budget was ditched, and the session was prolonged.

By reducing committee assignments, the act did not reduce the amount of business. It had to be handled by one device or another. So most of the enlarged committees simply split into subcommittees to get the work done. Hence members, instead of being members of more than one or two technically major committees, became in fact members of several subcommittees separately with jurisdiction at least equivalent to separate committees.

Finally, the President offered a legislative agenda so large as to exceed the capacities for a deliberate body to handle by any stretch of the imagination in any one year, and thereby foreclosed deliberate, careful consideration.

The notion that a law making available assistance in studying legislation, would cause Congress to want to study what they were doing, did not, of course, prove up. Administrative assistants were more or less compulsory for Senators who, however, have often rewarded faithful friends with the job. In the House many members are suspected as usual of finding ways to add the additional clerk hire to the payroll without burdening themselves with some one getting information or doing work. By giving Congress a chance to hire "experts" the Legislative Reorganization Act did not abolish the national favoritism for catch phrases and easy solutions, and the country's impatience with people who offer disturbing facts.

That any committee system designed to promote a balanced budget could do so in the face of a firm decision to spend to the limit of Congress' willingness, simply has not worked out. Congress cannot budget successfully in the face of the White House determination to spend and put budget-minded Congressmen on the spot with pressure groups.

* * *

It develops that the postponement of the more controversial phases of the "median income" housing bill was made only in part because a fight on those provisions would further delay adjournment. Senate Democratic leaders did not want to allocate another three of four days to an argument in the Senate about direct government loans to veterans, direct loans for housing at educational institutions, and cooperative housing.

At least another consideration in the postponement, it was explained, was that the "liberals" backing these innovations, want more time so as to give their propositions a better chance. Meanwhile, a few Senators are traveling to Sweden at government expense to allegedly study cooperative housing. Besides having a fine, free trip, these Senators hope to bring back arguments in favor of cooperative housing from a country where, at least by reputation, cooperatives have been the most successful.

So FHA Titles I and VI of FHA were continued in force until next March, so that there would be time next year for an effort to get these other innovations enacted.

* * *

The Home Loan Bank Board is probably the only agency which this year, having requested several pieces of legislation from Congress, got none of them, yet got three bills reported out which it opposed.

There were various propositions favored by HLB, among them bills to provide for retirement of government capital of the Home Loan Banks, provision of government money up to $1 billion for these banks, provision of three-quarters of a billion for the Federal Savings and Loan Insurance Corp., and others. None was approved in committee.

Instead the House Banking Committee reported out a bill reducing the assessment rate for share insurance of the savings and loan associations. The Senate Banking Committee voted to restrict HLB's power to charter savings and loan branches, and to allow the savings and loans, under certain circumstances, to convert to state-chartered mutual savings banks.

All three propositions were opposed by HLB.

What happened is that the Board approved new regulations which many commercial and mutual savings bankers believed stepped beyond the bounds of legitimate competition, allowing the savings and loans to identify themselves with ordinary banks. Whether these charges were or were not justified, many key Congressmen were convinced they were. The Chairman of the Senate Banking Committee asked HLB to defer these new regulations until they could be studied by the committee, which had them under consideration.

Instead, HLB went ahead in the face of Banking Committee hostility, and put them into effect. HLB is finding it doesn't have the power of a John Lewis.

* * *

Little noticed was the proposition in the annual report of the Federal Deposit Insurance Corp., that its resources are a part of bank capital. The report stated that the capital of the banking system is made up of two parts. One part consists of the banks' own capital; the other, the capital of the FDIC.

Since the ratio of equity capital to loans and investments has decreased in the last 10 years, due to the war inflation, and since the ratio of capital to risk assets naturally has increased in the pastwar era, this offers FDIC a beautiful position from which to assail any attempt to cut the assessment rate for deposit insurance for years to come. It would take a few billion and several years more to bring total bank and FDIC capital up to the old 10 to 1 ratio of prewar years.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"I'll be late tonight, Honeybunch—I want to get a little more familiar with the Statistical Department!"

Customers Brokers Education Program

The 1949-1950 Educational Program of the Association of Customers' Brokers will be inaugurated with a symposium on "The Outlook For the Stock Market" at the Governors' Room of the New York Curb Exchange, Friday, Oct. 21, 3:45 p.m. Leaders in the discussion will be three well-known authorities on the market:

Heinz H. Biel, of Laird, Bissell & Meeds.

Schroeder Boulton, of Baker, Weeks & Harden.

Joseph Mindell, of Marcus & Co.

Chairman of the committee, who will conduct the meetings every two weeks for the Association during the coming year is Nicholas F. Novak, of Drysdale & Company.

Business Man's Bookshelf

Brazil—An Expanding Economy—George Wythe-Royce A. Wight-Harold M. Midkiff — Twentieth Century Fund, 330 West 42nd Street, New York 18, N. Y.—cloth—$3.50

Two Paths to Collectivism—Russell J. Clinchy—The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—paper—single copy, no charge; 10 copies, $1.00; lower rates on larger quantities.

Your Social Security — J. K. Lasser—what to do now to avoid losing the maximum money-benefits due you and your family—paper—Simon & Schuster, 1230 Sixth Avenue, New York 20, N. Y. —paper—$1.00